

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF SANDUSKY	County SANILAC
Audit Date 2/29/04	Opinion Date 4/12/04	Date Accountant Report Submitted to State: August 4, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

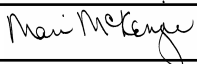
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) YEO & YEO, P.C.			
Street Address 3023 DAVENPORT	City SAGINAW	State MI	ZIP 48602
Accountant Signature 			

**CITY OF SANDUSKY  
MICHIGAN  
Annual Financial Statements  
and  
Auditors' Report  
February 29, 2004**

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**CITY OF SANDUSKY**  
**MICHIGAN**  
**Annual Financial Statements**  
**and**  
**Auditors' Report**  
**February 29, 2004**

**CITY COUNCIL**

SHARON KASPRZYK

EDNA SMITH

MARGUERITE McNIVEN

KEITH COSTINE

LUPE VANDERCOOK

VIRGINIA BISSETT

RICK COOK

MAYOR

MAYOR PRO-TEM

COUNCIL MEMBER

COUNCIL MEMBER

COUNCIL MEMBER

COUNCIL MEMBER

COUNCIL MEMBER

**OTHER OFFICERS AND OFFICIALS**

LOU LaPONSIE

LAURIE THOMPSON

E. KEITH PHILLIPS

CITY MANAGER

CITY CLERK

CITY TREASURER



## **Independent Auditors' Report**

To the Honorable Mayor and  
Members of the City Council  
City of Sandusky  
Sandusky, Michigan

We have audited the accompanying general purpose financial statements of the City of Sandusky, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Sandusky, Michigan management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of Sandusky - Watertown Utility Authority which represent the amounts shown as the Sewer Fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the Sewer Fund, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City has not maintained a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by accounting principles generally accepted in the United States of America, is not included in the financial report. The City has not capitalized the entire utility system in the Water and Sewer Funds as prescribed by accounting principles generally accepted in the United States of America. Also, the City has not capitalized equipment in the Internal Service Fund as prescribed by accounting principles generally accepted in the United States of America. The amounts by which the financial statements would change if the entire utility system and internal service fund equipment was included and depreciated, while material, cannot be determined.

In our opinion, based on our audit and the report of other auditors, except for the omission of the information mentioned in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Sandusky, Michigan at February 29, 2004, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Sandusky, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
April 12, 2004



**City of Sandusky, Michigan**  
**Combined Balance Sheet - All Fund Types and Account Group**  
**February 29, 2004**  
**With Comparative Totals for 2003**

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Group</u>	<u>Totals (Memorandum Only)</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Long-Term Debt</u>	<u>February 29, 2004</u>	<u>February 28, 2003</u>
Assets								
Cash and cash equivalents	\$ 713,932	\$ 413,639	\$ 160,385	\$ 168,494	\$ 1,216,914	\$ -	\$ 2,673,364	\$ 2,407,590
Investments	158,228	50,806	-	-	166,627	-	375,661	521,613
Receivables								
Taxes	96,371	-	-	-	13,756	-	110,127	111,756
Accounts	29,640	556	254,306	935	-	-	285,437	294,091
Special assessments	-	-	28,901	-	-	-	28,901	37,855
Due from other governmental units	89,509	36,129	1,568	-	-	-	127,206	90,936
Due from other funds	1,089,389	7,435	72,386	-	-	-	1,169,210	1,824,452
Advance to water and sewer funds	401,325	-	-	-	-	-	401,325	401,325
Restricted assets								
Cash and cash equivalents	-	-	244,548	12,375	-	-	256,923	307,759
Fixed assets (net of accumulated depreciation)	-	-	4,801,664	130,234	-	-	4,931,898	5,072,345
Amount to be provided for the retirement of general long-term debt	-	-	-	-	-	1,219,019	1,219,019	1,020,814
Total assets	<u>\$ 2,578,394</u>	<u>\$ 508,565</u>	<u>\$ 5,563,758</u>	<u>\$ 312,038</u>	<u>\$ 1,397,297</u>	<u>\$ 1,219,019</u>	<u>\$ 11,579,071</u>	<u>\$ 12,090,536</u>

**City of Sandusky, Michigan**  
**Combined Balance Sheet - All Fund Types and Account Group**  
**February 29, 2004**  
**With Comparative Totals for 2003**

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Group</u>	<u>Totals (Memorandum Only)</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Long-Term Debt</u>	<u>February 29, 2004</u>	<u>February 28, 2003</u>
Liabilities and Fund Equity								
Liabilities								
Accounts payable	\$ 11,211	\$ 6,474	\$ 19,998	\$ 2,209	\$ -	\$ -	\$ 39,892	\$ 40,251
Security deposits	-	9,536	-	-	-	-	9,536	9,018
Accrued wages	10,990	2,456	3,213	164	-	-	16,823	17,659
Accrued interest	-	-	24,162	-	-	-	24,162	25,933
Due to other governmental units	-	-	-	-	52,191	-	52,191	38,585
Due to other funds	7,435	-	23,316	-	1,138,459	-	1,169,210	1,824,452
Bonds payable, current portion	-	-	85,000	-	-	-	85,000	75,000
Deferred revenue	1,162,091	-	-	-	-	-	1,162,091	1,106,536
Contracts payable	-	-	-	-	-	350,749	350,749	68,691
Lease payable	-	-	-	38,299	-	-	38,299	74,847
Accrued vacation and sick leave	-	-	96,477	-	-	168,270	264,747	267,279
Advance from general fund	-	-	401,325	-	-	-	401,325	401,325
Bonds payable								
Revenue bonds	-	-	1,271,849	-	-	-	1,271,849	1,340,713
Special assessment bonds	-	-	30,000	-	-	-	30,000	45,000
General obligation bonds	-	-	-	-	-	700,000	700,000	800,000
Total liabilities	<u>1,191,727</u>	<u>18,466</u>	<u>1,955,340</u>	<u>40,672</u>	<u>1,190,650</u>	<u>1,219,019</u>	<u>5,615,874</u>	<u>6,135,289</u>
Fund equity								
Contributed capital	-	-	1,741,808	-	-	-	1,741,808	1,805,474
Retained earnings								
Reserved	-	-	175,742	-	-	-	175,742	227,199
Designated	-	-	68,806	12,375	-	-	81,181	80,560
Unreserved	-	-	1,622,062	-	-	-	1,622,062	1,693,703
Fund balance								
Reserved	403,563	134,037	-	-	206,647	-	744,247	730,385
Designated	325,758	4,241	-	-	-	-	329,999	279,044
Unreserved	<u>657,346</u>	<u>351,821</u>	<u>-</u>	<u>258,991</u>	<u>-</u>	<u>-</u>	<u>1,268,158</u>	<u>1,138,882</u>
Total fund equity	<u>1,386,667</u>	<u>490,099</u>	<u>3,608,418</u>	<u>271,366</u>	<u>206,647</u>	<u>-</u>	<u>5,963,197</u>	<u>5,955,247</u>
Total liabilities and fund equity	<u>\$ 2,578,394</u>	<u>\$ 508,565</u>	<u>\$ 5,563,758</u>	<u>\$ 312,038</u>	<u>\$ 1,397,297</u>	<u>\$ 1,219,019</u>	<u>\$ 11,579,071</u>	<u>\$ 12,090,536</u>

See Accompanying Notes to Financial Statements

**City of Sandusky, Michigan**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balance**  
**All Governmental Fund Types**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

				Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	February 29, 2004	February 28, 2003
Revenues					
Taxes and special assessments	\$ 1,104,099	\$ -	\$ -	\$ 1,104,099	\$ 1,021,009
Intergovernmental					
Federal	97,162	266,280	-	363,442	261,014
State	359,988	492,416	-	852,404	538,976
Local	5,000	87,471	-	92,471	123,427
Charges for services	136,484	-	-	136,484	129,342
Fines and forfeits	669	-	-	669	1,940
Interest and rent	25,284	-	-	25,284	52,573
Other revenue	31,925	151,380	-	183,305	536,533
Total revenues	1,760,611	997,547	-	2,758,158	2,664,814
Expenditures					
Legislative	10,059	-	-	10,059	12,574
General government	451,184	-	-	451,184	751,974
Public safety	488,485	-	-	488,485	524,753
Public works	369,771	673,081	-	1,042,852	1,092,190
Health and welfare	-	257,147	-	257,147	233,176
Recreation and cultural	425,737	-	-	425,737	121,190
Other activities	-	-	-	-	25,000
Debt service					
Principal retirement	-	-	100,000	100,000	100,000
Interest	-	-	74,144	74,144	83,400
Total expenditures	1,745,236	930,228	174,144	2,849,608	2,944,257
Excess of revenues over (under) expenditures	15,375	67,319	(174,144)	(91,450)	(279,443)
Other financing sources (uses)					
Operating transfers in	16	170,382	174,144	344,542	427,145
Operating transfers out	(151,957)	(205,456)	-	(357,413)	(447,861)
Proceeds from borrowing	225,000	-	-	225,000	-
Total other financing sources (uses)	73,059	(35,074)	174,144	212,129	(20,716)
Excess of revenues and other sources over (under) expenditures and other uses	88,434	32,245	-	120,679	(300,159)
Fund balance - beginning of year	1,298,233	457,854	-	1,756,087	2,056,246
Fund balance - end of year	\$ 1,386,667	\$ 490,099	\$ -	\$ 1,876,766	\$ 1,756,087

See Accompanying Notes to Financial Statements

**City of Sandusky, Michigan**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**All Governmental Fund Types**  
**For the Year Ended February 29, 2004**

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 1,105,000	\$ 1,104,099	\$ (901)	\$ -	\$ -	\$ -
Intergovernmental						
Federal	97,000	97,162	162	259,120	266,280	7,160
State	339,100	359,988	20,888	442,700	492,416	49,716
Local	3,500	5,000	1,500	116,600	87,471	(29,129)
Charges for services	143,800	136,484	(7,316)	-	-	-
Fines and forfeits	1,500	669	(831)	-	-	-
Interest and rent	42,175	25,284	(16,891)	-	-	-
Other revenue	18,800	31,925	13,125	149,330	151,380	2,050
Total revenues	<u>1,750,875</u>	<u>1,760,611</u>	<u>9,736</u>	<u>967,750</u>	<u>997,547</u>	<u>29,797</u>
Expenditures						
Legislative	16,000	10,059	5,941	-	-	-
General government	465,443	451,184	14,259	-	-	-
Public safety	545,101	488,485	56,616	-	-	-
Public works	409,595	369,771	39,824	757,942	673,081	84,861
Health and welfare	-	-	-	252,897	257,147	(4,250)
Recreation and cultural	448,160	425,737	22,423	-	-	-
Total expenditures	<u>1,884,299</u>	<u>1,745,236</u>	<u>139,063</u>	<u>1,010,839</u>	<u>930,228</u>	<u>80,611</u>
Excess of revenues over (under) expenditures	<u>(133,424)</u>	<u>15,375</u>	<u>148,799</u>	<u>(43,089)</u>	<u>67,319</u>	<u>110,408</u>
Other financing sources (uses)						
Operating transfers in	5,000	16	(4,984)	170,382	170,382	-
Operating transfers out	(160,232)	(151,957)	8,275	(206,296)	(205,456)	840
Proceeds from borrowing	225,000	225,000	-	-	-	-
Total other financing sources (uses)	<u>69,768</u>	<u>73,059</u>	<u>3,291</u>	<u>(35,914)</u>	<u>(35,074)</u>	<u>840</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(63,656)</u>	<u>88,434</u>	<u>152,090</u>	<u>(79,003)</u>	<u>32,245</u>	<u>111,248</u>
Fund balance - beginning of year	<u>1,298,233</u>	<u>1,298,233</u>	<u>-</u>	<u>457,854</u>	<u>457,854</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,234,577</u>	<u>\$ 1,386,667</u>	<u>\$ 152,090</u>	<u>\$ 378,851</u>	<u>\$ 490,099</u>	<u>\$ 111,248</u>

See Accompanying Notes to Financial Statements

**City of Sandusky, Michigan**  
**Combined Statement of Revenues, Expenses and Changes in Retained Earnings/**  
**Fund Balance - All Proprietary Fund Types and Similar Trust Funds**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

	Proprietary Fund Types		Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	Non- Expendable Trust	Employee Benefit Trust	February 29, 2004	February 28, 2003
Operating revenues						
Charges for services	\$ 818,012	\$ 127,966	\$ -	\$ -	\$ 945,978	\$ 932,951
Perpetual care	-	-	-	-	-	865
Investment income (loss)	-	-	-	6,129	6,129	3,384
Miscellaneous	15,983	490	-	-	16,473	41,936
Total operating revenues	833,995	128,456	-	6,129	968,580	979,136
Operating expenses						
Salaries and fringe benefits	430,319	20,840	-	-	451,159	433,244
Utilities	73,147	-	-	-	73,147	69,491
Depreciation	178,584	13,649	-	-	192,233	179,599
Other	268,399	40,455	-	-	308,854	222,259
Total operating expenses	950,449	74,944	-	-	1,025,393	904,593
Income (loss) from operations	(116,454)	53,512	-	6,129	(56,813)	74,543
Non-operating revenues (expenses)						
Interest	5,884	1,950	2,631	-	10,465	18,885
Bond interest and fiscal charges	(75,360)	(3,585)	-	-	(78,945)	(79,821)
Amortization of bond discount	(1,136)	-	-	-	(1,136)	(1,136)
Transfer to Township	829	-	-	-	829	(198)
Transfer from (to) other funds	-	(286)	665	12,492	12,871	20,716
Total non-operating revenues (expenses)	(69,783)	(1,921)	3,296	12,492	(55,916)	(41,554)
Net income (loss) before capital contributions	(186,237)	51,591	3,296	18,621	(112,729)	32,989
Add depreciation attributed to contributed capital	63,666	-	-	-	63,666	63,666
Net increase (decrease) in retained earnings/fund balance	(122,571)	51,591	3,296	18,621	(49,063)	96,655
Retained earnings/fund balance - beginning of year	1,989,181	219,775	106,190	78,540	2,393,686	2,297,031
Retained earnings/fund balance - end of year	\$ 1,866,610	\$ 271,366	\$ 109,486	\$ 97,161	\$ 2,344,623	\$ 2,393,686

See Accompanying Notes to Financial Statements

**City of Sandusky, Michigan**  
**Combined Statement of Cash Flows**  
**All Proprietary Fund Types and Similar Trust Funds**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

	Proprietary Fund Type		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Non- Expendable Trust	February 29, 2004	February 28, 2003
Cash flows from operating activities					
Operating income (loss)	\$ (116,454)	\$ 53,512	\$ -	\$ (62,942)	\$ 71,159
Adjustment					
Depreciation	178,584	13,649	-	192,233	179,599
(Increase) decrease in current assets					
Receivables	10,071	(265)	-	9,806	6,197
Due from Township	(1,568)	-	-	(1,568)	-
Due from other funds	701,222	-	-	701,222	(7,020)
Increase (decrease) in current liabilities					
Accounts payable	5,461	(1,274)	-	4,187	(4,540)
Lease payable	-	(36,548)	-	(36,548)	(40,133)
Notes payable	-	-	-	-	(9,930)
Accrued salaries, vacation and sick leave	(19,632)	(89)	-	(19,721)	15,617
Due to other funds	(725,629)	-	-	(725,629)	(15,384)
Due to governmental units	(1,550)	-	-	(1,550)	(2,771)
Total cash provided by operating activities	30,505	28,985	-	59,490	192,794
Cash flows from noncapital and related financing activities					
Transfers from (to) other funds	-	(286)	665	379	(28,100)
Transfers from (to) other governmental units	829	-	-	829	(198)
Total cash provided (used) by noncapital and related financing activities	829	(286)	665	1,208	(28,298)
Cash flows from capital and related financing activities					
Bond payments					
Principal	(75,000)	-	-	(75,000)	(70,000)
Interest and fiscal charges	(77,131)	-	-	(77,131)	(79,823)
Notes payable					
Interest and fiscal charges	-	(3,585)	-	(3,585)	(498)
Acquisition of capital assets	(34,287)	(17,499)	-	(51,786)	(699,528)
Net cash used by capital and related financing activities	(186,418)	(21,084)	-	(207,502)	(849,849)
Cash flows from investing activities					
Purchase of investments	-	-	(2,611)	(2,611)	(103,592)
Interest earned	5,884	1,950	2,631	10,465	22,662
Net cash provided (used) by investing activities	5,884	1,950	20	7,854	(80,930)
Net increase (decrease) in cash and cash equivalents	(149,200)	9,565	685	(138,950)	(766,283)
Cash and cash equivalents - beginning of year	554,133	171,304	2,598	728,035	1,494,318
Cash and cash equivalents - end of year	\$ 404,933	\$ 180,869	\$ 3,283	\$ 589,085	\$ 728,035
Non cash investing transactions					
Cost of equipment	\$ -	\$ -	\$ -	\$ -	\$ 114,980
Equipment related debt	-	-	-	-	(114,980)
Total non cash investing activities	\$ -	\$ -	\$ -	\$ -	\$ -

See Accompanying Notes to Financial Statements

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sandusky, Michigan, a Municipal corporation, was organized as a Village in 1885, under provisions of the Constitution and general law of the State of Michigan and became a fourth class City on June 15, 1905, under Local Act 656. Located approximately 85 miles north of Detroit, the City is one of three cities in Sanilac County, Michigan, and covers approximately 1.5 square miles. The City operates under an elected City Council which consists of a Mayor, Clerk, Treasurer, and six (6) Council members, with the daily activities administered by the City Manager, Clerk and Treasurer. The City provides services to more than 2,400 residents in many areas including law enforcement, fire protection, water, sewer, refuse collection, roads, airport, parks and recreation.

The accounting policies of the City of Sandusky conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**REPORTING ENTITY**

As required by GAAP, these financial statements present the City of Sandusky and its component units. In evaluating how to define the City of Sandusky for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."*

The individual component units discussed below are included in the Local Governmental Unit's reporting entity because of the

significance of their operational or financial relationships with the Local Governmental Unit.

**Blended Component Units**

A blended component unit is a legally separate entity from the City of Sandusky but is so intertwined with the City that it is, in substance, the same as the City of Sandusky. It is reported as part of the City and blended into the appropriate fund types and account groups.

**Utilities Authority**

The Sandusky - Watertown Utilities is governed by a board, with the majority appointed by the City. Although it is legally separate from the City, the Utilities Authority is reported as if it is part of the primary government because its sole purpose is acquire, own, improve, enlarge, extend and operate a sewage disposal system for the City of Sandusky and Watertown Township. The sewage treatment plant is maintained and operated by the City of Sandusky.

Complete financial statements of the individual component units can be obtained from:

Sandusky - Watertown Utilities  
26 W. Speaker  
Sandusky, Michigan 48471

**BASIS OF PRESENTATION**

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

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purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained, consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Local Governmental Unit are recorded in separate funds and account groups, categorized as follows:

**GOVERNMENTAL FUNDS**

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative requirements.

**Debt Service Funds** - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**PROPRIETARY FUNDS**

**Enterprise Fund** - Enterprise Funds are used to report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

**Internal Service Fund** – Internal Service Funds are used to report operations that provide goods or services to other funds or departments of the primary government and its component units on a cost reimbursement basis.

**FIDUCIARY FUNDS**

**Trust and Agency Funds** - These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds include: Cemetery Trust, Employee Benefit Trust and Current Tax Funds.

**ACCOUNT GROUP**

**General Long-Term Debt** - This account group presents the balance of general obligation long-term debt, which is not recorded in proprietary and trust funds.

**MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The governmental fund types (General, Special Revenue and Debt Service Funds) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. The expendable trust and agency funds also use the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to



**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

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pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

The proprietary fund types (Enterprise Funds) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. Pension Trust and Non-expendable Trust Funds also use the accrual basis of accounting.

In accordance with GASB Statement 20, the City has elected not to apply the FASB statements issued after November 30, 1989 to its financial statements.

**CASH, CASH EQUIVALENTS, AND INVESTMENTS**

For purposes of the statement of cash flows, demand deposits and short-term investments with maturity of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

**TAXES RECEIVABLE - CURRENT**

The City property tax is levied on each December 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31<sup>st</sup>.

Although the City's 2003 ad valorem tax is levied and collectible on December 1, 2003, it is the Local Governmental Unit's policy to recognize revenue from the current tax levy as deferred, since it is budgeted for the fiscal year ending February 28, 2005.

The 2003 taxable valuation of the City totaled \$56,864,393, on which ad valorem taxes levied consisted of 19.50 mills for operating purposes. This amount is recognized in the General Fund financial statements as taxes receivable, with an offsetting credit to deferred revenue.

**RECEIVABLES**

All receivables are recorded net of any uncollectible amounts. All delinquent real property taxes, special assessments, and utilities charges become liens against the property, and are reimbursed by Sanilac County's delinquent revolving fund. The County will, however, charge back to the City any amounts not collected at the end of four years. Past experience has indicated that such chargebacks should not be material; therefore, an allowance for doubtful accounts is not needed.

**ACCOUNTS RECEIVABLE - WATER**

Billings of \$106,121 and \$108,585 represents billed and unbilled user charges due at February 29, 2004 and February 28, 2003, respectively. All delinquent user charges become liens against the property and are reimbursed by Sanilac County's Delinquent Revolving Fund. The County will, however, charge back any amounts not collected at the end of four years. Past experience has indicated that such chargebacks should not be material; therefore, an allowance for doubtful accounts is not needed.

**FIXED ASSETS**

Fixed assets used in governmental fund types operations (general fixed assets) are accounted for in a General Fixed Assets Account Group, rather than in governmental funds. The City, however, has not maintained a record of all its general fixed assets, and accordingly a statement of general fixed assets is not included in

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

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the financial report as required by accounting principles generally accepted in the United States of America. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types.

Prior to March 1, 1981, the City did not record exhaustible fixed assets and related long-term liabilities on the Proprietary (Water and Sewer) Fund balance sheet or record the depreciation against operations as required by accounting principles generally accepted in the United States of America. However, since that time all major additions to fixed assets are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of the respective assets are expended currently. When property is retired or otherwise disposed of, the cost of the property and related depreciation are removed from the account. Gains and losses from disposals are included in earnings.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is computed on the straight-line method over the estimated useful life of the related asset. The estimated useful life is:

Utility System	50 years
Buildings	40 years
Equipment	8-20 years

#### DEFERRED REVENUE

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

#### COMPENSATED ABSENCES

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payments for unused sick leave under formulas and conditions specified in the contract. The dollar amount of these vested rights which has been accrued on the financial statements, either on the respective balance sheet or the Long-Term Account Group, amounted to \$168,270 at February 29, 2004.

#### FUND EQUITY

Contributed capital in the proprietary funds resulted from capital grants or contributions from customers or other funds prior to March 1, 2001. Depreciation on contributed fixed assets is allocated to contributed capital using the straight-line method over the assets useful lives. Reserves of fund equity represent portions of fund equity not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

#### ENCUMBRANCES

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

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statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**TOTAL COLUMN ON COMBINED STATEMENTS - OVERVIEW**

The total column on the combined statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

**COMPARATIVE DATA**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

**RECLASSIFICATIONS**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
STATEMENT 34**

The Governmental Accounting Standards Board has issued Statement No. 34, *Basic Financial statements and Management's*

*Discussion and Analysis for State and Local Governments*. This new reporting standard will impact the City's revenue and expenditure recognition; and assets, liabilities and fund equity reporting. The new standard will also require reformatting of the financial statements and restating beginning balances. The City is required to implement the new reporting model for the fiscal year ending February 28, 2005. Due to the significance of the changes required, it is not possible to present proforma data prior to implementation.

**NOTE 2 - BUDGETS**

Comparisons to budget are presented for general and special revenue funds as required by accounting principles generally accepted in the United States of America. The City follows specific procedures in establishing the budgetary data reflected in the combined financial statements.

1. Prior to February 1, City departments in conjunction with the City Manager, prepare and submit their proposed operating budgets for the calendar year commencing the following March 1. The operating budget includes proposed expenditures and resources to finance them.
2. A public hearing is conducted to obtain taxpayers' comments.
3. Prior to March 1, the budgets are legally enacted through passage of a resolution.
4. The budgets are legally adopted at the functional level, however, for control purposes are maintained at the activity level.
5. After the budget is adopted, any revisions to revenues or expenditures must be approved by the City Council.

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

Formal budgetary integration is not employed for other governmental fund types because effective budgetary control is achieved through alternate procedures.

The City has adopted formal budgets for all funds as required by P.A. 621 of 1978, Section 18 (1). P.A. 621 of 1978, Section 1(1), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated.

Expenditures were in excess of the amounts appropriated as follows:

	<u>Appropriation</u>	<u>Actual</u>	<u>Excess</u>
Senior Citizens Housing Fund	\$ 252,897	\$ 257,147	\$ 4,250

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The Local Governmental Unit's deposits and investments are presented on the balance sheet under the following categories:

Cash and cash equivalents	\$ 2,673,364
Investments	375,661
Restricted cash and cash equivalents	<u>256,923</u>
 Total	 <u><u>\$ 3,305,948</u></u>

The above amounts are classified by GASB Statement No. 3 in the following categories:

Bank deposits (checking accounts, management accounts, certificates of deposit)	\$ 2,660,097
Financial institution pooled funds	610,637
Investments in securities, mutual funds and similar vehicles	34,714
Petty cash and cash on hand	<u>500</u>
	<u><u>\$ 3,305,948</u></u>

Michigan Compiled Laws, Section 129.91, authorizes the Local Governmental Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City Council has designated two banks for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

The City's retirement system's investments are held in trust by the investment fiduciary. Michigan Compiled Laws, Section 38.1132, authorizes the City retirement system to invest in a wide variety of

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

investments including stocks, bonds, certificates of deposit, real estate, annuity contracts obligations of a specified nature, and real or personal property. Specific limitations apply to the various investment types depending on the size of the system.

The City's deposits and investments are in accordance with statutory authority. The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

Carrying amounts	\$ 2,660,098
Total deposits	2,676,403

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

Insured (FDIC)	\$ 200,000
Uninsured and uncollateralized	<u>2,476,403</u>

Total deposits	<u>\$ 2,676,403</u>
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The City's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk category 1 includes those investments that meet any one of the following criteria; insured, registered, or held by the City or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the City's name.

The GASB Statement No. 3 risk disclosures for the City's investments are categorized as follows:

Nonrisk - categorized	
Annuity contracts	\$ 6,908
Mutual funds	27,806
Financial institution pooled funds	<u>610,637</u>
 Total investments	 <u>\$ 645,351</u>

The mutual funds, financial institution pooled funds and annuity contracts are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

**NOTE 4 - INTERFUND RECEIVABLE AND PAYABLE BALANCES**

The following is a summary of due from or due to other funds balances by fund type at February 29, 2004.

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 1,072,189	Tax	\$ 1,072,189
General	11,200	Water	11,200
General	6,000	Employee Health Care	6,000
Airport	7,435	General	7,435
Water - bond	12,116	Water	12,116
Water - bond	14,862	Tax	14,862
Water	5,153	Employee Sick Pay	5,153
Water	13,692	Tax	13,692
Sewer	10,825	Employee Sick Pay	10,825
Sewer	<u>15,738</u>	Tax	<u>15,738</u>
	<u>\$ 1,169,210</u>		<u>\$ 1,169,210</u>

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

The following is a summary of advances by fund type at February 29, 2004.

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 295,994	Water - bond	\$ 295,994
General	<u>105,331</u>	Sewer	<u>105,331</u>
	<u>\$ 401,325</u>		<u>\$ 401,325</u>

**NOTE 5 - FIXED ASSETS**

A summary of proprietary fund fixed assets at February 29, 2004 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Utility system	\$ 4,679,143	\$ 2,238,967	\$ 6,918,110
Equipment	269,901	130,645	400,546
Construction in progress	<u>34,156</u>	<u>-</u>	<u>34,156</u>
	4,983,200	2,369,612	7,352,812
Less accumulated depreciation	<u>(2,093,349)</u>	<u>(457,799)</u>	<u>(2,551,148)</u>
	<u>\$ 2,889,851</u>	<u>\$ 1,911,813</u>	<u>\$ 4,801,664</u>

**NOTE 6 - LONG-TERM DEBT**

The following is a summary of the changes in the long-term debt of the City for the fiscal year ended February 29, 2004:

	<u>Balance March 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance February 29, 2004</u>
<b>Water Fund</b>				
1992 Michigan Municipal Bonds	\$ 47,250	\$ -	\$ 22,050	\$ 25,200
1992 Special Assessment Tax Bonds	34,650	-	6,300	28,350
Bonds, Series 2000	600,000	-	30,000	570,000
Bonds, Series 2001	750,000	-	-	750,000
Less: unamortized bond discount	<u>(19,287)</u>	<u>1,136</u>	<u>-</u>	<u>(18,151)</u>
Total Water Fund	<u>1,412,613</u>	<u>1,136</u>	<u>58,350</u>	<u>1,355,399</u>
<b>Sewer Fund</b>				
1992 Michigan Municipal Bonds	27,750	-	12,950	14,800
1992 Special Assessment Tax Bonds	<u>20,350</u>	<u>-</u>	<u>3,700</u>	<u>16,650</u>
Total Sewer Fund	<u>48,100</u>	<u>-</u>	<u>16,650</u>	<u>31,450</u>
<b>DPW Equipment Revolving Fund</b>				
Capital lease - street sweeper	<u>74,847</u>	<u>-</u>	<u>36,548</u>	<u>38,299</u>
<b>General Long-Term Debt Group</b>				
1980 Senior Citizens				
Housing Projects Bonds	800,000	-	100,000	700,000
1999 Installment purchase - tornado sirens	23,674	-	7,585	16,089
1999 Installment purchase - runway rehabilitation project	29,791	-	3,715	26,076
2001 Installment purchase - runway rehabilitation project	-	14,923	-	14,923
2002 Installment loan - fire hall roof	15,226	-	3,587	11,639
2003 Installment loan - vacant land	-	225,000	-	225,000
2003 Installment loan - John Deere tractor	-	72,855	15,833	57,022
Accrued vacation and sick leave	<u>152,123</u>	<u>16,147</u>	<u>-</u>	<u>168,270</u>
Total general long-term debt	<u>1,020,814</u>	<u>328,925</u>	<u>130,720</u>	<u>1,219,019</u>
Total change in long-term debt	<u>\$ 2,556,374</u>	<u>\$ 330,061</u>	<u>\$ 242,268</u>	<u>\$ 2,644,167</u>

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

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The City has acquired and constructed various road, facilities, and utility systems for which general long term debt has been obtained with the full faith and credit of the City pledged for their payment. The long term debt payable, as of February 29, 2004, is comprised of the following:

On June 1, 1980, the City issued \$2,050,000 General Obligation Senior Citizens Housing Project Bonds for the purpose of paying costs related to acquiring the site and constructing a senior citizens housing facility. The principal and interest on the bonds are to be paid from ad-valorem taxes to be levied without limitation as to rate or amount.

Bonds maturing in the years 2004 and 2009 inclusive, shall be subject to redemption prior to maturity, at the option of the City, in inverse numerical order, on any interest payment date on or after November 1, 2009, at par and accrued interest plus a premium expressed as a percentage of par.

The bonds are due in annual installments increasing from \$100,000 to \$125,000 through November 1, 2009, interest at 9.25 percent, payable semi-annually.      \$ 700,000

On June 1, 1992, the City of Sandusky issued \$185,000 Special Assessment Bonds (Limited Tax General Obligation) for the purpose of paying costs related to the construction and improvement of the water and sewage system in the West Sanilac district. With the exception of system oversizing, approximately 50% of the project will be paid from special assessments levied against the properties deemed to benefit from these improvements.

The bonds are due in an annual installment of \$15,000 on November 1, 2006, with interest at 6.00 percent, payable semi-annually.      45,000

On June 24, 1992, the City issued \$340,000, Series 1992 C bonds from the State revenue sharing program of the Michigan Municipal Bond Authority. The issuance is for the purpose of paying costs related to the construction and improvement of the water and sewage system in the West Sanilac district and water system related to Well #7 in the Northern district of the City.

The bonds are due in an annual installment of \$40,000 on May 1, 2004 with interest at 6.40 percent, payable semi-annually.      \$ 40,000

On October 19, 2000, the City issued \$650,000 Water Supply System Revenue Bonds, Series 2000. The issuance is for the purpose of paying costs related to construction and improvement of the water system related to Well #9.

The bonds are due in annual installments increasing from \$25,000 to \$50,000 through October 11, 2017 with interest ranging from 4.90 to 6.0 percent, payable semi-annually.      570,000

On June 7, 2001, the City issued \$750,000 Water Supply System Revenue Bonds, Series 2001. The issuance is for the purpose of paying costs related to construction and improvement of the water system.

The bonds are due in annual installments increasing from \$20,000 to \$75,000 through November 1, 2021 with interest at 5.10 percent, payable semi-annually.      750,000

Total bonds payable      \$ 2,105,000

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

The annual principal requirements to amortize the above bonds at February 29, 2004 is as follows:

Last Day of February

2005	\$ 185,000
2006	165,000
2007	195,000
2008	185,000
2009	190,000
2010-2014	505,000
2015-2019	455,000
2020-2021	225,000
	<u>\$ 2,105,000</u>

On April 15, 1999 the City of Sandusky borrowed \$44,743 from Bank One (formerly NBD Bank) for the purchase of tornado sirens. The loan calls for annual payments of \$8,520 including interest at 3.95%. \$ 16,089

On July 15, 1999, the City of Sandusky entered into a loan agreement with the Michigan Department of Transportation for their share of the runway rehabilitation project. The total cost of the project was \$40,000. The loan calls for ten annual payments of \$5,055 including interest. An interest rate of 4.5% is due on the unpaid balance. 26,076

On June 8, 2001, the City of Sandusky entered into a loan agreement with the Michigan Department of Transportation for their share of the runway rehabilitation project. The total cost of the project was \$17,898. the loan calls for annual payments of \$2,273 including interest at 4.6%. 14,923

On January 8, 2002, the City of Sandusky entered into a loan agreement with Signature Bank for the fire hall roof repair. The total loan amount was \$18,683. The contract calls for five annual payments of \$4,158 including interest at 3.75%. \$ 11,639

On March 4, 2003, the City of Sandusky entered into a loan agreement with Exchange State Bank for the purchase of vacant land. The total loan amount was \$225,000. The loan calls for annual payments of \$21,028 including interest at 4.55%. 225,000

On March 20, 2003, the City of Sandusky entered into a loan agreement with Deere Credit for the purchase of a John Deere tractor. The total loan amount was \$72,855. The loan calls for annual payments of \$15,833 including interest at 4.33%. 57,022

\$ 350,749

The annual principal payments on the above contracts at February 29, 2004 is as follows:

Last Day of February

2005	\$ 41,197
2006	43,002
2007	36,370
2008	33,751
2009	21,475
2010-2014	82,775
2015-2019	<u>92,179</u>
	<u>\$ 350,749</u>



**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

There are a number of limitations and restrictions contained in the various bond debentures and contracts payable. The City is in compliance with all significant limitations and restrictions.

**NOTE 7 – CAPITAL LEASE PAYABLE**

The City of Sandusky purchased a street sweeper for \$114,980 under a three-year capital lease agreement, at an interest rate of 4.79% with the first payment being made in fiscal year 2002. The annual principal and interest payments at February 29, 2004 are as follows:

<u>Last Day of February</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 38,299	\$ 1,834	\$ 40,133
	<u>\$ 38,299</u>	<u>\$ 1,834</u>	<u>\$ 40,133</u>

**NOTE 8 - DEFINED BENEFIT PENSION PLAN**

The City of Sandusky maintains two defined benefit plans. Two former employees still receive benefits from plans administered by Midwest Pension Actuaries (MPA). The MERS administers all current eligible employees and all retired employees not administered by Midwest Pension Actuaries, Inc. As such, the City's financial statements reflects the activity of the pension fund as administered by Midwest Pension Actuaries, Inc. The following is a summary of both defined benefit pension plans.

**PLAN AS ADMINISTERED BY MIDWEST PENSION ACTUARIES, INC.**

The cost and market value of the pension fund investments administered by MPA at February 29, 2004 are as follows:

	<u>Cost</u>	<u>Market</u>
Scudder Investments	\$ 27,806	\$ 27,806
American Life Annuity	<u>6,908</u>	<u>6,908</u>
Total	<u>\$ 34,714</u>	<u>\$ 34,714</u>

**PLAN AS ADMINISTERED BY THE MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM**

**Plan Description**

The City of Sandusky participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers certain employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: MERS, 447 N. Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

**Funding Policy**

Employees are required to contribute 3-5% of their annual earnings up to \$4,200 and 5% thereafter to the System. The City is required to contribute amounts necessary to fund the System using sound actuarial methods; the rates for fiscal year ending February 29, 2004 were as follows:

General employees	16.17%
Patrolmen	2.70%
DPW and WWTP Union	15.57%

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

**Annual Pension Costs**

For fiscal year ended February 29, 2004, the City's annual pension cost of \$117,370 (\$35,211 normal cost, plus \$82,159 unfunded accrued liability) was equal to their required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) an investment yield rate of 8%, (b) projected salary increases ranging from 4.5% to 8.66% per year, and (c) a 2.5% per year cost-of-living adjustment. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a period of 30 years.

Historical trend information for the City's MERS is presented below:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Annual pension cost	\$ 110,172	\$ 88,621	\$ 75,999
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	786,029	716,354	645,140
Actuarial accrued liability	2,449,781	2,159,433	1,900,181
Unfunded AAL	1,663,752	1,443,079	1,255,041
Funded ratio	32.1%	33.2%	34.0%
Covered payroll	906,229	872,244	797,847
UAAL as a percentage of covered payroll	184%	165%	157%

**NOTE 9 - RISK MANAGEMENT**

The City of Sandusky is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other municipalities to form the Michigan

Municipal Risk Management Authority (MMRMA), a public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of \$3 million for each insured event. The MMRMA provides general liability, casualty and fleet coverage to the City.

The City is also a member of the Michigan Municipal League (MML). The City contracts with Meadowbrook Insurance through the MML for its worker's compensation and airport insurance coverage. The City continues to carry commercial insurance for employee health coverage through Blue Cross Blue Shield of Michigan.

**NOTE 10 - ENTERPRISE FUND ACTIVITY**

The Sandusky-Watertown Utilities Authority was created by the City of Sandusky and Watertown Township, both located in the County of Sanilac, Michigan. The purpose of the Authority is to acquire, own, improve, enlarge, extend and operate a sewage disposal system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended. The sewage treatment plant is maintained and operated by the City of Sandusky.

**NOTE 11 - ENTERPRISE FUNDS - FUND EQUITY - CONTRIBUTED CAPITAL AND RETAINED EARNINGS**

The City utilizes the optional method as stated in NCGA Statement 2 and amortizes contributed capital over the useful life of the asset to which it relates. The presentation of fund equity includes amortization of contributed capital.

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

The following is a summary of contributed capital and retained earnings at February 29, 2004:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Fund equity			
Contributed capital	\$ 3,079,472	\$ 62,192	\$ 3,141,664
Less accumulated amortization	<u>(1,397,631)</u>	<u>(2,225)</u>	<u>(1,399,856)</u>
	<u>1,681,841</u>	<u>59,967</u>	<u>1,741,808</u>
Retained earnings			
Designated for equipment	-	68,806	68,806
Reserved for equipment	30,917	-	30,917
Reserved for purposes of debt service reserve	-	144,825	144,825
Unreserved	<u>1,184,270</u>	<u>437,792</u>	<u>1,622,062</u>
Total retained earnings	<u>1,215,187</u>	<u>651,423</u>	<u>1,866,610</u>
Total fund equity	<u>\$ 2,897,028</u>	<u>\$ 711,390</u>	<u>\$ 3,608,418</u>

**NOTE 12 - SEGMENT INFORMATION**

The City operates two heterogeneous enterprise funds which are the Sewer and Water Funds. Segment information for the fiscal year ended February 29, 2004 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues	\$ 489,816	\$ 344,179	\$ 833,995
Depreciation expense	117,899	60,685	178,584
Operating income (loss)	(126,265)	9,811	(116,454)
Net income (loss)	(125,511)	(60,726)	(186,237)
Additions to property and equipment	23,186	11,101	34,287
Net working capital	165,801	196,056	361,857
Total assets	3,123,965	2,439,793	5,563,758
Total fund equity	2,897,028	711,390	3,608,418

**NOTE 13 - RESERVED AND DESIGNATED EQUITY**

Reservations of fund balances and retained earnings are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures. Specific reservations of the retained earnings and fund balance accounts are summarized below.

Reserved	
General fund - drug forfeiture	\$ 2,238
General fund - advance from sewer and water funds	401,325
Senior Citizens Replacement Reserve	134,037
Water Fund debt retirement	144,825
Sewer Fund equipment replacement	30,917
Cemetery Trust Fund	109,486
Retirement System Fund	34,714
Employee Sick Pay Fund	35,431
Employee Health Care Fund	<u>27,017</u>
	<u>\$ 919,990</u>

**City of Sandusky, Michigan**  
**Notes to the Financial Statements**  
**Year Ended February 29, 2004**

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Designations of unreserved fund balances are created to indicate tentative plans for the use of current financial resources in the future. Specific designations of the fund balance accounts are summarized below.

General Fund	
Cemetery	\$ 41,044
City Hall	49,553
Industrial Park	29,739
Recreation	40,471
Recreation park development	3,838
Recreation playground equipment	13,864
Senior citizen building	123,227
Police	23,761
DPW	261
Airport Fund	4,241
Water Fund	68,806
DPW Equipment Revolving Fund	<u>12,375</u>
	<u>\$ 411,180</u>

**NOTE 15 - EMPLOYEE SICK PAY AND HEALTH CARE FUNDS**

As permitted by the Michigan Department of Treasury, effective March 1, 2002, the City established an Employee Sick Pay Fund and Employee Health Care Fund. The Employee Sick Pay Fund is used to account for money set-aside for employee's sick pay. The Employee Health Care Fund is for the accumulation and investment of funds to provide for the funding of health care benefits to retired employees and their beneficiaries.

**NOTE 16 - CONTINGENT LIABILITIES**

The City is a defendant in a lawsuit. Although the outcome of this lawsuit is not presently determinable, in the opinion of the City's attorney, the resolution of this matter will not have a material adverse effect on the financial condition of the City.

**City of Sandusky, Michigan**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended February 29, 2004**

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 1,105,000	\$ 1,104,099	\$ (901)
Intergovernmental - Federal	97,000	97,162	162
Intergovernmental - State	339,100	359,988	20,888
Intergovernmental - Local	3,500	5,000	1,500
Charges for services	143,800	136,484	(7,316)
Fines and forfeits	1,500	669	(831)
Rent	13,675	13,554	(121)
Interest	28,500	11,730	(16,770)
Other revenue	18,800	31,925	13,125
Total revenues	<u>1,750,875</u>	<u>1,760,611</u>	<u>9,736</u>
Expenditures			
Legislative	16,000	10,059	5,941
General government	465,443	451,184	14,259
Public safety	545,101	488,485	56,616
Public works	409,595	369,771	39,824
Recreation and cultural	448,160	425,737	22,423
Total expenditures	<u>1,884,299</u>	<u>1,745,236</u>	<u>139,063</u>
Excess of revenues over expenditures	<u>(133,424)</u>	<u>15,375</u>	<u>148,799</u>
Other financing sources (uses)			
Operating transfers in	5,000	16	(4,984)
Operating transfers out	(160,232)	(151,957)	8,275
Proceeds from borrowing	225,000	225,000	-
Total other financing sources (uses)	<u>69,768</u>	<u>73,059</u>	<u>3,291</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(63,656)</u>	<u>88,434</u>	<u>152,090</u>
Fund balance - beginning of year	<u>1,298,233</u>	<u>1,298,233</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,234,577</u>	<u>\$ 1,386,667</u>	<u>\$ 152,090</u>

**City of Sandusky, Michigan**  
**General Fund**  
**Detailed Statements of Revenues**  
**For the Year Ended February 29, 2004 and February 28, 2003**

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	<u>2004</u>	<u>2003</u>
Taxes		
Current property taxes	\$ 1,025,366	\$ 918,943
Delinquent property taxes	77,017	99,430
Penalty and interest on taxes	<u>1,716</u>	<u>2,636</u>
	<u>1,104,099</u>	<u>1,021,009</u>
Intergovernmental		
Federal - Community Development Block Grant	97,162	299,805
State	359,988	343,663
Local - Safe Schools pass thru	<u>5,000</u>	<u>4,000</u>
	<u>462,150</u>	<u>647,468</u>
Charges for services		
Sale of cemetery lots	3,325	3,460
Grave openings, closings and foundations	7,110	9,397
Refuse collections	93,449	91,738
Public hearings	1,375	960
Cable T.V. franchise fee	10,913	9,711
Residential sidewalk construction	1,913	948
Rental registration fee	17,858	12,475
Other	<u>541</u>	<u>653</u>
	<u>136,484</u>	<u>129,342</u>
Fines and forfeits		
Parking, court and ordinance fines	<u>669</u>	<u>1,940</u>

**City of Sandusky, Michigan**  
**General Fund**  
**Detailed Statements of Revenues**  
**For the Year Ended February 29, 2004 and February 28, 2003**

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	<u>2004</u>	<u>2003</u>
Interest and rent		
Interest earned - other	\$ 11,730	\$ 40,717
Rent		
Fire hall	11,954	10,136
Cable T.V.	1,500	1,500
Pavilion	<u>100</u>	<u>220</u>
	<u>25,284</u>	<u>52,573</u>
Other revenue		
Recreation revenue	14,748	26,071
Donations	4,963	6,227
Other	<u>12,214</u>	<u>42,370</u>
	<u>31,925</u>	<u>74,668</u>
Other financing sources		
Proceeds from borrowing	225,000	-
Transfer from Grant Revolving	16	63,606
Transfer from Improvement Revolving Fund	-	15,869
Transfer from DPW Equipment Revolving Fund	<u>-</u>	<u>28,100</u>
	<u>225,016</u>	<u>107,575</u>
Total revenues and other financing sources	<u>\$ 1,985,627</u>	<u>\$ 2,034,575</u>

**City of Sandusky, Michigan**  
**General Fund**  
**Detailed Statements of Expenditures**  
**For the Year Ended February 29, 2004 and February 28, 2003**

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	<u>2004</u>	<u>2003</u>
Legislative		
City council fees	\$ 10,059	\$ 12,574
General government		
General operations		
Salaries and wages	152,548	147,676
Fringe benefits and payroll taxes	51,665	51,261
Assessor	15,017	15,566
Election expense	1,863	2,824
Operating supplies	17,796	17,550
Professional services	20,718	30,915
Membership and dues	2,690	3,031
Printing and publishing	3,625	3,654
Insurance and bonds	4,645	9,873
Utilities	4,446	5,710
Repairs and maintenance	9,826	7,131
Board of review	1,234	1,199
Board of appeal/planning commission	783	901
Community promotions	13,129	14,445
Capital outlay	1,420	21,136
Industrial park development	114,186	362,305
Education and training	2,007	5,775
Other	3,700	18,750
	<u>421,298</u>	<u>719,702</u>



**City of Sandusky, Michigan**  
**General Fund**  
**Detailed Statements of Expenditures**  
**For the Year Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Cemetery operations		
Salaries and wages	\$ 14,530	\$ 16,619
Fringe benefits and payroll taxes	7,219	6,946
Operating supplies	1,334	747
Insurance	449	174
Professional services	465	357
Repairs and maintenance	595	497
Utilities	1,613	1,131
Equipment rental	2,822	5,249
Miscellaneous	390	552
Capital outlay	469	-
	<u>29,886</u>	<u>32,272</u>
Total general government	<u>451,184</u>	<u>751,974</u>
Public safety		
Police department		
Salaries and wages	258,387	251,610
Fringe benefits and payroll taxes	83,261	86,797
Operating supplies	11,848	9,145
Professional services	930	475
Membership and dues	100	340
Telephone	2,857	2,771
Gas and oil	6,031	5,099
Insurance and bonds	4,985	8,251
Utilities	1,459	1,792
Repairs and maintenance	4,969	6,257
Rent	1,714	1,649
Education and training	2,967	2,420
Capital outlay	15,856	20,834
Miscellaneous	62	3,200
	<u>395,426</u>	<u>400,640</u>

**City of Sandusky, Michigan**  
**General Fund**  
**Detailed Statements of Expenditures**  
**For the Year Ended February 29, 2004 and February 28, 2003**

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	<u>2004</u>	<u>2003</u>
Fire department		
Contracted services	\$ 69,335	\$ 84,598
Insurance and bonds	1,108	1,464
Repairs and maintenance	<u>92</u>	<u>293</u>
	<u>70,535</u>	<u>86,355</u>
Ordinance officer		
Salaries and wages	6,443	5,997
Fringe benefits and payroll taxes	493	459
Operating supplies	407	340
Professional services	<u>6,661</u>	<u>22,443</u>
	<u>14,004</u>	<u>29,239</u>
Civil defense		
Principal payment	6,733	6,732
Interest	<u>1,787</u>	<u>1,787</u>
	<u>8,520</u>	<u>8,519</u>
Total public safety	<u>488,485</u>	<u>524,753</u>

**City of Sandusky, Michigan**  
**General Fund**  
**Detailed Statements of Expenditures**  
**For the Year Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Public works		
Department of public works		
Salaries and wages	\$ 117,160	\$ 116,122
Fringe benefits and payroll taxes	58,802	73,289
Operating supplies	7,282	7,266
Professional services	465	357
Telephone	899	833
Insurance	3,020	6,821
Utilities	8,252	4,313
Repairs and maintenance	3,176	1,882
Rent	11,444	17,237
Education and training	1,140	1,028
Capital outlay	9,433	65,052
Miscellaneous	-	1,665
	<u>221,073</u>	<u>295,865</u>
 Citizens sidewalk		
Salaries and wages	208	186
Fringe benefits and payroll taxes	15	14
Operating supplies	-	138
Rent	276	171
Residential sidewalk construction	<u>1,570</u>	<u>27,557</u>
	<u>2,069</u>	<u>28,066</u>
 Street lighting		
Utilities	<u>61,965</u>	<u>61,808</u>
 Refuse	<u>84,664</u>	<u>82,581</u>
 Total public works	<u>369,771</u>	<u>468,320</u>

**City of Sandusky, Michigan**  
**General Fund**  
**Detailed Statements of Expenditures**  
**For the Year Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Recreation and cultural		
Recreation department		
Salaries and wages	\$ 51,242	\$ 51,161
Fringe benefits and payroll taxes	9,175	7,970
Program expenses	23,418	21,933
Utilities	1,257	1,031
Repairs and maintenance	3,527	2,780
Insurance	1,725	1,333
Professional services	7,568	7,137
Operating supplies	4,059	5,146
Equipment rental	832	1,104
Capital outlay	317,147	18,788
Miscellaneous	<u>5,787</u>	<u>2,807</u>
	<u>425,737</u>	<u>121,190</u>
Other activities		
Sandusky District Library	<u>-</u>	<u>25,000</u>
Total expenditures	<u>1,745,236</u>	<u>1,903,811</u>
Other financing uses		
Transfers out		
Local Street Fund	75,000	73,030
Airport Fund	68,065	34,390
Cemetery Trust Fund	665	-
Employees Sick Pay Fund	2,227	28,241
Employees Health Care Fund	<u>6,000</u>	<u>20,575</u>
Total other financing uses	<u>151,957</u>	<u>156,236</u>
Total expenditures and other financing uses	<u>\$ 1,897,193</u>	<u>\$ 2,060,047</u>

**City of Sandusky, Michigan**  
**Special Revenue Funds**  
**Combining Balance Sheet**  
**February 29, 2004**  
**With Comparative Totals for 2003**

	Major Street	Local Street	Airport	Senior Citizens Housing	Total	
					2004	2003
<b>Assets</b>						
Cash and cash equivalents	\$ 122,400	\$ 44,795	\$ 16,847	\$ 229,597	\$ 413,639	\$ 383,815
Investments	-	-	-	50,806	50,806	61,237
Due from other funds	-	-	7,435	-	7,435	-
Due from other governmental units						
State	25,250	10,879	-	-	36,129	33,716
Receivable - other	-	-	556	-	556	556
<b>Total assets</b>	<b>\$ 147,650</b>	<b>\$ 55,674</b>	<b>\$ 24,838</b>	<b>\$ 280,403</b>	<b>\$ 508,565</b>	<b>\$ 479,324</b>
<b>Liabilities and Fund Balance</b>						
<b>Liabilities</b>						
Accounts payable	\$ 19	\$ -	\$ 735	\$ 5,720	\$ 6,474	\$ 8,430
Security deposits	-	-	-	9,536	9,536	9,018
Accrued payroll	354	439	240	1,423	2,456	4,022
<b>Total liabilities</b>	<b>373</b>	<b>439</b>	<b>975</b>	<b>16,679</b>	<b>18,466</b>	<b>21,470</b>
<b>Fund balance</b>						
Reserved	-	-	-	134,037	134,037	142,109
Designated	-	-	4,241	-	4,241	4,209
Unreserved	147,277	55,235	19,622	129,687	351,821	311,536
<b>Total fund balance</b>	<b>147,277</b>	<b>55,235</b>	<b>23,863</b>	<b>263,724</b>	<b>490,099</b>	<b>457,854</b>
<b>Total liabilities and fund balance</b>	<b>\$ 147,650</b>	<b>\$ 55,674</b>	<b>\$ 24,838</b>	<b>\$ 280,403</b>	<b>\$ 508,565</b>	<b>\$ 479,324</b>

**City of Sandusky, Michigan**  
**Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

	Major Street	Local Street	Airport	Senior Citizens Housing	Federal Grant Revolving	Total	
						2004	2003
Revenues							
Intergovernmental							
Federal	\$ -	\$ -	\$ -	\$ 266,280	\$ -	\$ 266,280	\$ 261,014
State	433,380	59,036	-	-	-	492,416	195,313
Local	87,471	-	-	-	-	87,471	119,427
Miscellaneous	2,077	1,296	16,662	131,345	-	151,380	162,060
Total revenues	522,928	60,332	16,662	397,625	-	997,547	737,814
Expenditures							
Public works	421,632	169,322	82,127	-	-	673,081	623,870
Health and welfare	-	-	-	257,147	-	257,147	233,176
Total expenditures	421,632	169,322	82,127	257,147	-	930,228	857,046
Excess of revenues over (under) expenditures	101,296	(108,990)	(65,465)	140,478	-	67,319	(119,232)
Other financing sources (uses)							
Operating transfers in	-	102,317	68,065	-	-	170,382	136,170
Operating transfers out	(29,840)	-	-	(175,600)	(16)	(205,456)	(291,625)
Total other financing sources (uses)	(29,840)	102,317	68,065	(175,600)	(16)	(35,074)	(155,455)
Excess of revenues and other financing sources over (under) expenditures and other uses	71,456	(6,673)	2,600	(35,122)	(16)	32,245	(274,687)
Fund balance - beginning of year	75,821	61,908	21,263	298,846	16	457,854	732,541
Fund balance - end of year	\$ 147,277	\$ 55,235	\$ 23,863	\$ 263,724	\$ -	\$ 490,099	\$ 457,854

**City of Sandusky, Michigan**  
**Major Street Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended February 29, 2004**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental			
State			
State Highway Act 51	\$ 115,000	\$ 133,099	\$ 18,099
Maintenance contract	22,000	18,905	(3,095)
Grant	251,700	281,376	29,676
Local	116,600	87,471	(29,129)
Interest earned	2,000	2,077	77
Total revenues	<u>507,300</u>	<u>522,928</u>	<u>15,628</u>
Expenditures			
Road maintenance			
Routine	8,800	3,458	5,342
Winter	16,500	12,240	4,260
Traffic	1,200	821	379
Other	42,300	37,540	4,760
Trunkline maintenance			
Routine	2,100	1,895	205
Winter	14,400	9,067	5,333
Traffic	100	95	5
Other	10,430	8,155	2,275
Administration	13,000	12,842	158
Fringe benefits	22,415	14,548	7,867
Insurance	2,100	2,343	(243)
Professional services	1,162	27,838	(26,676)
New construction costs	354,703	290,790	63,913
Total expenditures	<u>489,210</u>	<u>421,632</u>	<u>67,578</u>
Excess of revenues over expenditures	<u>18,090</u>	<u>101,296</u>	<u>83,206</u>
Other financing uses			
Operating transfers out	<u>(29,840)</u>	<u>(29,840)</u>	<u>-</u>
Total other financing uses	<u>(29,840)</u>	<u>(29,840)</u>	<u>-</u>
Excess of revenues and other uses over expenditures	(11,750)	71,456	83,206
Fund balance - beginning of year	<u>75,821</u>	<u>75,821</u>	<u>-</u>
Fund balance - end of year	<u>\$ 64,071</u>	<u>\$ 147,277</u>	<u>\$ 83,206</u>

**City of Sandusky, Michigan**  
**Local Street Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended February 29, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Intergovernmental			
State			
State Highway Act 51	\$ 54,000	\$ 59,036	\$ 5,036
Interest earned	<u>2,000</u>	<u>1,296</u>	<u>(704)</u>
Total revenues	<u>56,000</u>	<u>60,332</u>	<u>4,332</u>
Expenditures			
Road maintenance			
Routine	14,400	11,834	2,566
Winter	21,700	22,564	(864)
Traffic	1,200	399	801
Other	78,589	90,003	(11,414)
Administration	13,300	13,686	(386)
Fringe benefits	31,750	23,757	7,993
Insurance	2,100	2,343	(243)
Professionals services	1,163	1,163	-
New construction costs	<u>13,665</u>	<u>3,573</u>	<u>10,092</u>
Total expenditures	<u>177,867</u>	<u>169,322</u>	<u>8,545</u>
Excess of revenues (under) expenditures	<u>(121,867)</u>	<u>(108,990)</u>	<u>12,877</u>
Other financing sources			
Operating transfers in	<u>102,317</u>	<u>102,317</u>	<u>-</u>
Excess of revenues and other sources over expenditures	(19,550)	(6,673)	12,877
Fund balance - beginning of year	<u>61,908</u>	<u>61,908</u>	<u>-</u>
Fund balance - end of year	<u>\$ 42,358</u>	<u>\$ 55,235</u>	<u>\$ 12,877</u>



**City of Sandusky, Michigan**  
**Airport Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended February 29, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Sale of gasoline	\$ 7,000	\$ 6,769	\$ (231)
Interest	500	581	81
Rent - hangers	7,500	8,275	775
Miscellaneous	100	1,037	937
Total revenues	<u>15,100</u>	<u>16,662</u>	<u>1,562</u>
Expenditures			
City services			
Salaries	13,850	12,707	1,143
Fringe benefits	1,500	1,182	318
Operating supplies	1,500	2,223	(723)
Insurance	5,200	5,347	(147)
Utilities	3,150	3,807	(657)
Professional services	665	1,191	(526)
Miscellaneous	500	1,196	(696)
Repairs and maintenance	8,000	7,841	159
New construction costs	41,200	15,769	25,431
Gasoline and oil	7,700	7,703	(3)
Loan payment and interest	7,600	23,161	(15,561)
Total expenditures	<u>90,865</u>	<u>82,127</u>	<u>8,738</u>
Excess of revenues (under) expenditures	<u>(75,765)</u>	<u>(65,465)</u>	<u>10,300</u>
Other financing sources			
Operating transfers in	<u>68,065</u>	<u>68,065</u>	<u>-</u>
Excess of revenues and other sources over expenditures	<u>(7,700)</u>	<u>2,600</u>	<u>10,300</u>
Fund balance - beginning of year	<u>21,263</u>	<u>21,263</u>	<u>-</u>
Fund balance - end of year	<u>\$ 13,563</u>	<u>\$ 23,863</u>	<u>\$ 10,300</u>

**City of Sandusky, Michigan**  
**Senior Citizens Housing Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended February 29, 2004**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental			
Federal (HUD)	\$ 259,120	\$ 266,280	\$ 7,160
Rent - tenant	114,280	114,130	(150)
Interest	5,500	4,110	(1,390)
Rent - cable	5,300	6,902	1,602
Other	5,150	6,203	1,053
Total revenues	<u>389,350</u>	<u>397,625</u>	<u>8,275</u>
Expenditures			
City services			
Salaries	60,894	82,655	(21,761)
Fringe benefits	34,223	19,155	15,068
Operating supplies	3,500	4,808	(1,308)
Insurance	9,200	10,278	(1,078)
Utilities	68,100	63,866	4,234
Professional services	930	930	-
Miscellaneous	9,250	7,575	1,675
Repairs and maintenance	35,500	34,666	834
Capital outlay	26,000	25,494	506
Rent - cable	5,300	7,720	(2,420)
Total expenditures	<u>252,897</u>	<u>257,147</u>	<u>(4,250)</u>
Excess of revenues over expenditures	<u>136,453</u>	<u>140,478</u>	<u>4,025</u>
Other financing uses			
Operating transfers out	<u>(176,456)</u>	<u>(175,600)</u>	<u>(856)</u>
Excess of revenues (under) expenditures and other uses	(40,003)	(35,122)	4,881
Fund balance - beginning of year	<u>298,846</u>	<u>298,846</u>	<u>-</u>
Fund balance - end of year	<u>\$ 258,843</u>	<u>\$ 263,724</u>	<u>\$ 4,881</u>

**City of Sandusky, Michigan**  
**Federal Grant Revolving Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended February 29, 2004**

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	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing uses			
Operating transfers out	\$ -	\$ (16)	\$ 16
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	(16)	(16)
Fund balance - beginning of year	<u>16</u>	<u>16</u>	<u>-</u>
Fund balance - end of year	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ (16)</u>

**City of Sandusky, Michigan**  
**Debt Service Funds**  
**1980 G.O. Senior Citizens Housing Project**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

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	<u>2004</u>	<u>2003</u>
Expenditures		
Bond principal retirement	\$ 100,000	\$ 100,000
Interest	<u>74,144</u>	<u>83,400</u>
Total expenditures	<u>174,144</u>	<u>183,400</u>
Excess of revenues (under) expenditures	<u>(174,144)</u>	<u>(183,400)</u>
Other financing sources		
Operating transfers in	<u>174,144</u>	<u>183,400</u>
Total other financing sources	<u>174,144</u>	<u>183,400</u>
Excess of other financing sources over (under) expenditures	-	-
Fund balance - beginning of year	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>

**City of Sandusky, Michigan**  
**Enterprise Funds**  
**Combining Balance Sheet**  
**February 29, 2004**  
**With Comparative Totals for 2003**

			Total	
	Sewer	Water	2004	2003
Assets				
Current assets				
Cash and cash equivalents	\$ 26,881	\$ 133,504	\$ 160,385	\$ 258,655
Accounts receivable	148,185	106,121	254,306	255,423
Special assessment receivable	-	28,901	28,901	37,855
Due from Township	1,568	-	1,568	-
Due from other funds	26,563	45,823	72,386	773,608
Total current assets	203,197	314,349	517,546	1,325,541
Restricted assets				
Cash and cash equivalents	30,917	213,631	244,548	295,478
Property and equipment				
Construction in progress	34,156	-	34,156	29,576
Utility system	4,679,143	2,238,967	6,918,110	6,907,010
Equipment	269,901	130,645	400,546	381,940
	4,983,200	2,369,612	7,352,812	7,318,526
Less: accumulated depreciation	(2,093,349)	(457,799)	(2,551,148)	(2,372,565)
Property and equipment - net	2,889,851	1,911,813	4,801,664	4,945,961
Total assets	\$ 3,123,965	\$ 2,439,793	\$ 5,563,758	\$ 6,566,980

**City of Sandusky, Michigan**  
**Enterprise Funds**  
**Combining Balance Sheet**  
**February 29, 2004**  
**With Comparative Totals for 2003**  
**(Continued)**

			Total	
	Sewer	Water	2004	2003
Liabilities and Fund Equity				
Current liabilities				
Accounts payable	\$ 13,833	\$ 6,165	\$ 19,998	\$ 14,537
Accrued salaries	3,213	-	3,213	4,166
Due to other funds	-	23,316	23,316	748,945
Due to Township	-	-	-	1,550
Accrued interest payable	-	24,162	24,162	25,933
Bonds payable, current portion	20,350	64,650	85,000	75,000
Total current liabilities	37,396	118,293	155,689	870,131
Long-term liabilities				
Bonds payable, long-term portion	11,100	1,290,749	1,301,849	1,385,713
Advance from general fund	105,331	295,994	401,325	401,325
Accrued vacation and sick leave	73,110	23,367	96,477	115,156
Total long-term liabilities	189,541	1,610,110	1,799,651	1,902,194
Total liabilities	226,937	1,728,403	1,955,340	2,772,325
Fund equity				
Contributed capital	1,681,841	59,967	1,741,808	1,805,474
Retained earnings				
Designated for equipment replacement	-	68,806	68,806	68,279
Reserved for equipment replacement	30,917	-	30,917	90,379
Reserved for purposes of debt service reserve	-	144,825	144,825	136,820
Unreserved	1,184,270	437,792	1,622,062	1,693,703
Total retained earnings	1,215,187	651,423	1,866,610	1,989,181
Total fund equity	2,897,028	711,390	3,608,418	3,794,655
Total liabilities and fund equity	\$ 3,123,965	\$ 2,439,793	\$ 5,563,758	\$ 6,566,980

**City of Sandusky, Michigan**  
**Enterprise Funds**  
**Combining Statement of Revenues, Expenses and Changes in Retained Earnings**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

	Sewer	Water	Total	
			2004	2003
Operating revenues				
Sale of services	\$ 472,392	\$ 338,700	\$ 811,092	\$ 786,092
Tap-in fees	3,520	3,400	6,920	13,128
Miscellaneous	13,904	2,079	15,983	41,491
Total operating revenues	489,816	344,179	833,995	840,711
Operating expenses				
Salaries	181,064	112,859	293,923	308,538
Fringe benefits	94,188	42,208	136,396	112,241
Operating supplies	44,546	18,998	63,544	57,074
Professional services	38,552	15,623	54,175	(632)
Insurance	12,448	5,487	17,935	9,637
Utilities	54,495	18,652	73,147	69,491
Repairs and maintenance	32,802	24,063	56,865	75,349
Equipment rental	1,939	25,323	27,262	29,839
Construction/capital outlay	-	7,028	7,028	904
Gas and oil	796	-	796	1,428
Sludge handling	31,816	-	31,816	11,280
Depreciation	117,899	60,685	178,584	167,075
Miscellaneous	5,536	3,442	8,978	8,296
Total operating expenses	616,081	334,368	950,449	850,520
Operating income (loss)	(126,265)	9,811	(116,454)	(9,809)
Non-operating revenues (expenses)				
Interest	876	5,008	5,884	16,121
Bond interest and fiscal charges	(951)	(74,409)	(75,360)	(79,323)
Amortization of bond discount	-	(1,136)	(1,136)	(1,136)
Transfer to Township	829	-	829	(198)
Total non-operating revenues (expenses)	754	(70,537)	(69,783)	(64,536)
Net income (loss)	(125,511)	(60,726)	(186,237)	(74,345)
Add depreciation attributed to contributed capital	61,441	2,225	63,666	63,666
Retained earnings - beginning of year	1,279,257	709,924	1,989,181	1,999,860
Retained earnings - end of year	\$ 1,215,187	\$ 651,423	\$ 1,866,610	\$ 1,989,181

**City of Sandusky, Michigan**  
**Enterprise Fund**  
**Combining Statement of Cash Flows**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

	Sewer	Water	Total	
	2004	2003		
Cash flows from operating activities				
Operating income (loss)	\$ (126,265)	\$ 9,811	\$ (116,454)	\$ (9,809)
Adjustments				
Depreciation	117,899	60,685	178,584	167,075
Changes in assets and liabilities				
(Increase) decrease in				
Accounts receivable	(1,347)	2,464	1,117	(3,676)
Special assessment receivable	-	8,954	8,954	10,543
Due from Township	(1,568)	-	(1,568)	-
Due from other funds	(9,147)	710,369	701,222	(7,020)
Increase (decrease) in				
Accounts payable	6,829	(1,368)	5,461	(5,814)
Accrued salaries, vacation and sick leave	(21,830)	2,198	(19,632)	15,696
Due to other funds	-	(725,629)	(725,629)	(15,384)
Due to other governmental units	(1,550)	-	(1,550)	(2,771)
Net cash provided (used) by operating activities	<u>(36,979)</u>	<u>67,484</u>	<u>30,505</u>	<u>148,840</u>
Cash flows from noncapital and related financing activities				
Transfers from (to) other governmental units	<u>829</u>	<u>-</u>	<u>829</u>	<u>(198)</u>
Net cash provided (used) by noncapital and related financing activities	<u>829</u>	<u>-</u>	<u>829</u>	<u>(198)</u>
Cash flows from (for) capital and related financing activities				
Bond payments				
Principal	(16,650)	(58,350)	(75,000)	(70,000)
Interest and fiscal charges	(951)	(76,180)	(77,131)	(79,823)
Acquisition of capital assets	<u>(23,186)</u>	<u>(11,101)</u>	<u>(34,287)</u>	<u>(699,528)</u>
Net cash used by capital and related financing activities	<u>(40,787)</u>	<u>(145,631)</u>	<u>(186,418)</u>	<u>(849,351)</u>
Cash flows from investing activities				
Interest earned	<u>876</u>	<u>5,008</u>	<u>5,884</u>	<u>16,121</u>
Net increase (decrease) in cash and cash equivalents	(76,061)	(73,139)	(149,200)	(684,588)
Cash and cash equivalents - beginning of year	<u>133,859</u>	<u>420,274</u>	<u>554,133</u>	<u>1,238,721</u>
Cash and cash equivalents - end of year	<u>\$ 57,798</u>	<u>\$ 347,135</u>	<u>\$ 404,933</u>	<u>\$ 554,133</u>



**City of Sandusky, Michigan**  
**Sewer Fund**  
**Balance Sheet**  
**February 29, 2004 and February 28, 2003**

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	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 26,881	\$ 43,480
Accounts receivable	148,185	146,838
Due from Township	1,568	-
Due from other funds	<u>26,563</u>	<u>17,416</u>
Total current assets	<u>203,197</u>	<u>207,734</u>
Restricted assets		
Cash and cash equivalents	<u>30,917</u>	<u>90,379</u>
Property and equipment		
Utility system	4,679,143	4,679,143
Equipment	269,901	251,295
Construction in progress	<u>34,156</u>	<u>29,576</u>
	4,983,200	4,960,014
Less: accumulated depreciation	<u>(2,093,349)</u>	<u>(1,975,450)</u>
Property and equipment - net	<u>2,889,851</u>	<u>2,984,564</u>
Total assets	<u>\$ 3,123,965</u>	<u>\$ 3,282,677</u>

**City of Sandusky, Michigan**  
**Sewer Fund**  
**Balance Sheet**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

	<u>2004</u>	<u>2003</u>
Liabilities and Fund Equity		
Current liabilities		
Accounts payable	\$ 13,833	\$ 7,004
Accrued salaries	3,213	4,166
Due to Township	-	1,550
Bonds payable, current portion	<u>20,350</u>	<u>16,650</u>
Total current liabilities	37,396	29,370
Long-term liabilities		
Bonds payable, long-term portion	11,100	31,450
Advance from general fund	105,331	105,331
Accrued vacation and sick leave	<u>73,110</u>	<u>93,987</u>
Total long-term liabilities	<u>189,541</u>	<u>230,768</u>
Total liabilities	<u>226,937</u>	<u>260,138</u>
Fund equity		
Contributed capital		
Federal and state grants	3,067,334	3,067,334
Local	<u>12,138</u>	<u>12,138</u>
	3,079,472	3,079,472
Less: amortization	<u>(1,397,631)</u>	<u>(1,336,190)</u>
	<u>1,681,841</u>	<u>1,743,282</u>
Retained earnings		
Reserved for equipment replacement	30,917	90,379
Unreserved	<u>1,184,270</u>	<u>1,188,878</u>
	<u>1,215,187</u>	<u>1,279,257</u>
Total fund equity	<u>2,897,028</u>	<u>3,022,539</u>
Total liabilities and fund equity	<u>\$ 3,123,965</u>	<u>\$ 3,282,677</u>

**City of Sandusky, Michigan**  
**Sewer Fund**  
**Statement of Revenues, Expenses and Changes in Retained Earnings**  
**For the Years Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Operating revenues		
Sale of services	\$ 472,392	\$ 461,875
Tap-in fees	3,520	8,540
Miscellaneous	<u>13,904</u>	<u>10,737</u>
Total operating revenues	<u>489,816</u>	<u>481,152</u>
Operating expenses		
Salaries and wages	181,064	225,378
Fringe benefits	94,188	86,724
Operating supplies	44,546	41,955
Professional services	38,552	(2,515)
Insurance	12,448	7,007
Utilities	54,495	51,468
Repairs and maintenance	32,802	49,605
Equipment rental	1,939	8,915
Gas and oil	796	1,428
Sludge handling	31,816	11,280
Depreciation	117,899	121,799
Miscellaneous	<u>5,536</u>	<u>4,739</u>
Total operating expenses	<u>616,081</u>	<u>607,783</u>
Operating loss	<u>(126,265)</u>	<u>(126,631)</u>
Non-operating revenues (expenses)		
Interest	876	2,815
Bond interest and fiscal charges	(951)	(592)
Transfer from (to) Township	<u>829</u>	<u>(198)</u>
Total non-operating revenues (expenses)	<u>754</u>	<u>2,025</u>
Net loss	<u>(125,511)</u>	<u>(124,606)</u>
Add depreciation attributed to contributed capital	<u>61,441</u>	<u>61,441</u>
Increase (decrease) in retained earnings	<u>(64,070)</u>	<u>(63,165)</u>
Retained earnings - beginning of year	<u>1,279,257</u>	<u>1,342,422</u>
Retained earnings - end of year	<u>\$ 1,215,187</u>	<u>\$ 1,279,257</u>

**City of Sandusky, Michigan**  
**Sewer Fund**  
**Statement of Cash Flows**  
**For the Year Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Operating loss	\$ (126,265)	\$ (126,631)
Adjustments		
Depreciation	117,899	121,799
(Increase) decrease in current assets		
Accounts receivable	(1,347)	473
Due from Township	(1,568)	-
Due from other funds	(9,147)	(14,566)
Increase (decrease) in current liabilities		
Accounts payable	6,829	(7,055)
Accrued salaries	(953)	1,692
Due to Township	(1,550)	(2,771)
Accrued vacation and sick leave	<u>(20,877)</u>	<u>17,528</u>
Net cash used by operating activities	<u>(36,979)</u>	<u>(9,531)</u>
Cash flows from non-capital financing activities		
Transfer from (to) other governmental units	<u>829</u>	<u>(198)</u>
Cash flows from capital and related financing activities		
Bond payments		
Principal	(16,650)	(16,650)
Interest and fiscal charges	(951)	(592)
Acquisition of capital assets	<u>(23,186)</u>	<u>(73,772)</u>
Net cash used by capital and related financing activities	<u>(40,787)</u>	<u>(91,014)</u>
Cash flows from investing activities		
Interest earned	<u>876</u>	<u>2,815</u>
Net decrease in cash and cash equivalents	(76,061)	(97,928)
Cash and cash equivalents - beginning of year	<u>133,859</u>	<u>231,787</u>
Cash and cash equivalents - end of year	<u>\$ 57,798</u>	<u>\$ 133,859</u>

**City of Sandusky, Michigan**  
**Water Fund**  
**Combining Balance Sheet**  
**February 29, 2004 and February 28, 2003**

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	Water Fund	1992 Bond Issue	2004	2003
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 77,025	\$ 56,479	\$ 133,504	\$ 215,175
Accounts receivable	106,121	-	106,121	108,585
Special assessment receivable	-	28,901	28,901	37,855
Due from other funds	<u>18,845</u>	<u>26,978</u>	<u>45,823</u>	<u>756,192</u>
Total current assets	<u>201,991</u>	<u>112,358</u>	<u>314,349</u>	<u>1,117,807</u>
<b>Restricted assets</b>				
Cash and cash equivalents	<u>213,631</u>	<u>-</u>	<u>213,631</u>	<u>205,099</u>
<b>Property and equipment</b>				
Utility system	1,908,217	330,750	2,238,967	2,227,867
Equipment	<u>130,645</u>	<u>-</u>	<u>130,645</u>	<u>130,645</u>
	2,038,862	330,750	2,369,612	2,358,512
Less: accumulated depreciation	<u>(385,034)</u>	<u>(72,765)</u>	<u>(457,799)</u>	<u>(397,115)</u>
Property and equipment - net	<u>1,653,828</u>	<u>257,985</u>	<u>1,911,813</u>	<u>1,961,397</u>
Total assets	<u>\$ 2,069,450</u>	<u>\$ 370,343</u>	<u>\$ 2,439,793</u>	<u>\$ 3,284,303</u>

**City of Sandusky, Michigan**  
**Water Fund**  
**Combining Balance Sheet**  
**February 29, 2004 and February 28, 2003**

	Water Fund	1992 Bond Issue	2004	2003
Liabilities and Fund Equity				
Current liabilities				
Accounts payable	\$ 6,165	\$ -	\$ 6,165	\$ 7,533
Due to other funds	23,316	-	23,316	748,945
Accrued interest payable	23,058	1,104	24,162	25,933
Bonds payable, current portion	<u>30,000</u>	<u>34,650</u>	<u>64,650</u>	<u>58,350</u>
Total current liabilities	<u>82,539</u>	<u>35,754</u>	<u>118,293</u>	<u>840,761</u>
Long-term liabilities				
Bonds payable, long term portion	1,271,849	18,900	1,290,749	1,354,263
Advance from general fund	-	295,994	295,994	295,994
Accrued vacation and sick leave	<u>23,367</u>	<u>-</u>	<u>23,367</u>	<u>21,169</u>
Total long-term liabilities	<u>1,295,216</u>	<u>314,894</u>	<u>1,610,110</u>	<u>1,671,426</u>
Total liabilities	<u>1,377,755</u>	<u>350,648</u>	<u>1,728,403</u>	<u>2,512,187</u>
Fund equity				
Contributed capital	59,967	-	59,967	62,192
Retained earnings				
Designated for equipment replacement	68,806	-	68,806	68,279
Reserved for purposes of debt service reserve	144,825	-	144,825	136,820
Unreserved	<u>418,097</u>	<u>19,695</u>	<u>437,792</u>	<u>504,825</u>
Total retained earnings	<u>631,728</u>	<u>19,695</u>	<u>651,423</u>	<u>709,924</u>
Total fund equity	<u>691,695</u>	<u>19,695</u>	<u>711,390</u>	<u>772,116</u>
Total liabilities and fund equity	<u>\$ 2,069,450</u>	<u>\$ 370,343</u>	<u>\$ 2,439,793</u>	<u>\$ 3,284,303</u>

**City of Sandusky, Michigan**  
**Water Fund**  
**Combining Statement of Revenues, Expenses and Changes in Retained Earnings**  
**For the Year Ended February 29, 2004 and February 28, 2003**

	Water Fund	1992 North & West District Bond Issue	Water Supply System Construction 2000	Water Supply System Debt 2000	Water Supply System Construction 2001	Water Supply System Debt 2001	2004	2003
Operating revenues								
Sale of services	\$ 338,700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 338,700	\$ 324,217
Tap-in fees	3,400	-	-	-	-	-	3,400	4,588
Miscellaneous	2,079	-	-	-	-	-	2,079	30,754
Total operating revenues	344,179	-	-	-	-	-	344,179	359,559
Operating expenses								
Salaries and wages	112,859	-	-	-	-	-	112,859	83,160
Fringe benefits	42,208	-	-	-	-	-	42,208	25,517
Operating supplies	18,998	-	-	-	-	-	18,998	15,119
Professional services	15,623	-	-	-	-	-	15,623	1,883
Insurance	5,487	-	-	-	-	-	5,487	2,630
Utilities	18,652	-	-	-	-	-	18,652	18,023
Repairs and maintenance	24,063	-	-	-	-	-	24,063	25,744
Equipment rental	25,323	-	-	-	-	-	25,323	20,924
Capital outlay	7,028	-	-	-	-	-	7,028	904
Depreciation	54,070	6,615	-	-	-	-	60,685	45,276
Miscellaneous	3,442	-	-	-	-	-	3,442	3,557
Total operating expenses	327,753	6,615	-	-	-	-	334,368	242,737
Operating income (loss)	16,426	(6,615)	-	-	-	-	9,811	116,822
Non-operating revenues (expenses)								
Interest	3,005	2,003	-	-	-	-	5,008	13,306
Bond interest and fiscal charges	(70,155)	(4,254)	-	-	-	-	(74,409)	(78,731)
Amortization of bond discount	(1,136)	-	-	-	-	-	(1,136)	(1,136)
Transfers	(20,475)	30,870	(2,446)	(3,899)	(3,962)	(88)	-	-
Total non-operating revenues (expenses)	(88,761)	28,619	(2,446)	(3,899)	(3,962)	(88)	(70,537)	(66,561)
Net income (loss)	(72,335)	22,004	(2,446)	(3,899)	(3,962)	(88)	(60,726)	50,261
Add depreciation attributed to contributed capital	2,225	-	-	-	-	-	2,225	2,225
Retained earnings - beginning of year	701,838	(2,309)	2,446	3,899	3,962	88	709,924	657,438
Retained earnings - end of year	\$ 631,728	\$ 19,695	\$ -	\$ -	\$ -	\$ -	\$ 651,423	\$ 709,924

**City of Sandusky, Michigan**  
**Water Fund**  
**Combining Statement of Cash Flows**  
**For the Year Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Operating income	\$ 9,811	\$ 116,822
Adjustments		
Depreciation	60,685	45,276
(Increase) decrease in current assets		
Accounts receivable	2,464	(4,149)
Special assessment receivable	8,954	10,543
Due from other funds	710,369	7,546
Increase (decrease) in current liabilities		
Accounts payable	(1,368)	1,241
Accrued vacation and sick leave	2,198	(3,524)
Due to other funds	<u>(725,629)</u>	<u>(15,384)</u>
Net cash provided by operating activities	<u>67,484</u>	<u>158,371</u>
Cash flows from capital and related financing activities		
Bond payments		
Principal	(58,350)	(53,350)
Interest and fiscal charges	(76,180)	(79,231)
Acquisition of capital assets	<u>(11,101)</u>	<u>(625,756)</u>
Net cash used by capital and related financing activities	<u>(145,631)</u>	<u>(758,337)</u>
Cash flows from investing activities		
Interest earned	<u>5,008</u>	<u>13,306</u>
Net decrease in cash and cash equivalents	(73,139)	(586,660)
Cash and cash equivalents - beginning of year	<u>420,274</u>	<u>1,006,934</u>
Cash and cash equivalents - end of year	<u>\$ 347,135</u>	<u>\$ 420,274</u>



**City of Sandusky, Michigan**  
**DPW Equipment Revolving Fund**  
**Balance Sheet**  
**February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 168,494	\$ 159,023
Accounts receivable	<u>935</u>	<u>670</u>
Total current assets	<u>169,429</u>	<u>159,693</u>
Restricted assets		
Cash and cash equivalents	<u>12,375</u>	<u>12,281</u>
Property and equipment		
Equipment	159,966	142,467
Less: accumulated depreciation	<u>(29,732)</u>	<u>(16,083)</u>
Property and equipment - net	<u>130,234</u>	<u>126,384</u>
Total assets	<u>\$ 312,038</u>	<u>\$ 298,358</u>
Liabilities and Fund Equity		
Current liabilities		
Accounts payable	\$ 2,209	\$ 3,483
Lease payable, current portion	38,299	36,548
Accrued salaries	<u>164</u>	<u>253</u>
Total current liabilities	40,672	40,284
Lease payable, net of current portion	<u>-</u>	<u>38,299</u>
Total liabilities	<u>40,672</u>	<u>78,583</u>
Fund equity		
Retained earnings		
Designated for equipment replacement	12,375	12,281
Unreserved	<u>258,991</u>	<u>207,494</u>
Total fund equity	<u>271,366</u>	<u>219,775</u>
Total liabilities and fund equity	<u>\$ 312,038</u>	<u>\$ 298,358</u>

**City of Sandusky, Michigan**  
**DPW Equipment Revolving Fund**  
**Statement of Revenues, Expenses and Changes in Retained Earnings**  
**For the Year Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Operating revenues		
Rent	\$ 127,966	\$ 133,731
Other	<u>490</u>	<u>445</u>
Total operating revenues	<u>128,456</u>	<u>134,176</u>
Operating expenses		
Salaries and wages	13,541	11,800
Fringe benefits	7,299	665
Operating supplies	416	160
Gasoline and oil	10,744	7,638
Insurance	8,660	282
Repairs and maintenance	18,283	17,915
Capital outlay	2,352	3,089
Depreciation	<u>13,649</u>	<u>12,524</u>
Total operating expenses	<u>74,944</u>	<u>54,073</u>
Operating income	<u>53,512</u>	<u>80,103</u>
Non-operating revenues (expenses)		
Interest	1,950	2,764
Interest and fiscal charges	(3,585)	(498)
Transfers from (to)	<u>(286)</u>	<u>(28,100)</u>
Total non-operating revenues (expenses)	<u>(1,921)</u>	<u>(25,834)</u>
Net income	51,591	54,269
Retained earnings - beginning of year	<u>219,775</u>	<u>165,506</u>
Retained earnings - end of year	<u>\$ 271,366</u>	<u>\$ 219,775</u>

**City of Sandusky, Michigan**  
**DPW Equipment Revolving Fund**  
**Statement of Cash Flows**

**For the Year Ended February 29, 2004 and February 28, 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Operating income	\$ 53,512	\$ 80,103
Adjustments		
Depreciation	13,649	12,524
(Increase) decrease in current assets		
Accounts receivable	(265)	(670)
Increase (decrease) in current liabilities		
Accounts payable	(1,274)	1,274
Lease payable	(36,548)	(40,133)
Notes payable	-	(9,930)
Accrued salaries	(89)	(79)
Net cash provided by operating activities	<u>28,985</u>	<u>43,089</u>
Cash flows from noncapital and related financing activities		
Transfers from (to) other funds	<u>(286)</u>	<u>(28,100)</u>
Cash flows from capital and related financing activities		
Interest and fiscal charges	(3,585)	(498)
Acquisition of capital assets	<u>(17,499)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(21,084)</u>	<u>(498)</u>
Cash flows from investing activities		
Interest earned	<u>1,950</u>	<u>2,764</u>
Net increase in cash and cash equivalents	9,565	17,255
Cash and cash equivalents - beginning of year	<u>171,304</u>	<u>154,049</u>
Cash and cash equivalents - end of year	<u>\$ 180,869</u>	<u>\$ 171,304</u>
Non cash investing transactions		
Cost of equipment	\$ -	\$ 114,980
Equipment related debt	<u>-</u>	<u>(114,980)</u>
Total non cash investing activities	<u>\$ -</u>	<u>\$ -</u>

**City of Sandusky, Michigan**  
**Trust and Agency Funds**  
**Combining Balance Sheet**  
**February 29, 2004**  
**With Comparative Totals for 2003**

	Cemetery Trust	Employee Benefit Trust	Current Tax	Total	
				2004	2003
<b>Assets</b>					
Cash and cash equivalents	\$ 3,283	\$ 58,715	\$ 1,154,916	\$ 1,216,914	\$ 1,121,524
Investments	106,203	60,424	-	166,627	132,761
Taxes receivable	-	-	13,756	13,756	34,047
<b>Total assets</b>	<b><u>\$ 109,486</u></b>	<b><u>\$ 119,139</u></b>	<b><u>\$ 1,168,672</u></b>	<b><u>\$ 1,397,297</u></b>	<b><u>\$ 1,288,332</u></b>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Due to other governmental units	\$ -	\$ -	\$ 52,191	\$ 52,191	\$ 37,035
Due to other funds	-	21,978	1,116,481	1,138,459	1,066,567
<b>Total liabilities</b>	<b>-</b>	<b>21,978</b>	<b>1,168,672</b>	<b>1,190,650</b>	<b>1,103,602</b>
<b>Fund balance</b>					
Reserved	109,486	97,161	-	206,647	184,730
<b>Total liabilities and fund balance</b>	<b><u>\$ 109,486</u></b>	<b><u>\$ 119,139</u></b>	<b><u>\$ 1,168,672</u></b>	<b><u>\$ 1,397,297</u></b>	<b><u>\$ 1,288,332</u></b>

**City of Sandusky, Michigan**  
**Trust and Agency Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

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	Cemetery Trust	Employee Benefit Trust	2004	2003
Revenues				
Sale of perpetual care	\$ -	\$ -	\$ -	\$ 865
Investment income	<u>2,631</u>	<u>6,129</u>	<u>8,760</u>	<u>3,384</u>
Total revenues	<u>2,631</u>	<u>6,129</u>	<u>8,760</u>	<u>4,249</u>
Excess of revenues over expenses	2,631	6,129	8,760	4,249
Other financing sources				
Transfers from other funds	<u>665</u>	<u>12,492</u>	<u>13,157</u>	<u>48,816</u>
Excess of revenues and other sources over expenses	3,296	18,621	21,917	53,065
Fund balance - beginning of year	<u>106,190</u>	<u>78,540</u>	<u>184,730</u>	<u>131,665</u>
Fund balance - end of year	<u><u>\$ 109,486</u></u>	<u><u>\$ 97,161</u></u>	<u><u>\$ 206,647</u></u>	<u><u>\$ 184,730</u></u>

**City of Sandusky, Michigan**  
**Cemetery Trust Fund**  
**Statement of Revenues, Expenses and Changes in Fund Balance**  
**For the Years Ended February 29, 2004 and February 28, 2003**

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	<u>2004</u>	<u>2003</u>
Revenues		
Sale of perpetual care	\$       -	\$     865
Interest	<u>2,631</u>	<u>3,777</u>
Total revenues	<u>2,631</u>	<u>4,642</u>
Excess of revenues over expenses	2,631	4,642
Other financing sources		
Transfers from other funds	<u>665</u>	<u>-</u>
Excess of revenues and other sources over expenses	3,296	4,642
Fund balance - beginning of year	<u>106,190</u>	<u>101,548</u>
Fund balance - end of year	<u>\$ 109,486</u>	<u>\$ 106,190</u>

**City of Sandusky, Michigan**  
**Cemetery Trust Fund**  
**Statement of Cash Flows**  
**For the Years Ended February 29, 2004 and February 28, 2003**

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	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Operating income	\$       -	\$       865
Cash flows from investing activities		
Purchase of investments	(2,611)	(103,592)
Interest earned	<u>2,631</u>	<u>3,777</u>
Net cash provided (used) by investing activities	<u>20</u>	<u>(99,815)</u>
Cash flows from noncapital and related financing activities		
Transfers from other funds	<u>665</u>	<u>-</u>
Net cash provided by noncapital and related financing activities	665	-
Net increase (decrease) in cash and cash equivalents	685	(98,950)
Cash and cash equivalents - beginning of year	<u>2,598</u>	<u>101,548</u>
Cash and cash equivalents - end of year	<u><u>\$ 3,283</u></u>	<u><u>\$ 2,598</u></u>

**City of Sandusky, Michigan**  
**Employee Benefit Trust Funds**  
**Combining Balance Sheet**  
**February 28, 2004**  
**With Comparative Totals for 2003**

	<u>Retirement System</u>	<u>Employees Sick Pay</u>	<u>Employees Health Care</u>	<u>Total</u>	
				<u>2004</u>	<u>2003</u>
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ 35,982	\$ 22,733	\$ 58,715	\$ 49,371
Investments	<u>34,714</u>	<u>15,426</u>	<u>10,284</u>	<u>60,424</u>	<u>29,169</u>
Total assets	<u>\$ 34,714</u>	<u>\$ 51,408</u>	<u>\$ 33,017</u>	<u>\$ 119,139</u>	<u>\$ 78,540</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Due to other funds	\$ -	\$ 15,978	\$ 6,000	\$ 21,978	\$ -
<b>Fund balance</b>					
Reserved	<u>34,714</u>	<u>35,430</u>	<u>27,017</u>	<u>97,161</u>	<u>78,540</u>
Total liabilities and fund balance	<u>\$ 34,714</u>	<u>\$ 51,408</u>	<u>\$ 33,017</u>	<u>\$ 119,139</u>	<u>\$ 78,540</u>



**City of Sandusky, Michigan**  
**Employee Benefit Trust Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**For the Year Ended February 29, 2004**  
**With Comparative Totals for 2003**

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	<u>Retirement System</u>	<u>Employees Sick Pay</u>	<u>Employees Health Care</u>	<u>2004</u>	<u>2003</u>
Revenues					
Investment income (loss)	<u>\$ 5,545</u>	<u>\$ 368</u>	<u>\$ 216</u>	<u>\$ 6,129</u>	<u>\$ (393)</u>
Excess of revenues over (under) expenses	5,545	368	216	6,129	(393)
Other financing sources					
Transfers from other funds	<u>-</u>	<u>6,492</u>	<u>6,000</u>	<u>12,492</u>	<u>48,816</u>
Excess of revenues and other sources over expenses	5,545	6,860	6,216	18,621	48,423
Fund balance - beginning of year	<u>29,169</u>	<u>28,570</u>	<u>20,801</u>	<u>78,540</u>	<u>30,117</u>
Fund balance - end of year	<u><u>\$ 34,714</u></u>	<u><u>\$ 35,430</u></u>	<u><u>\$ 27,017</u></u>	<u><u>\$ 97,161</u></u>	<u><u>\$ 78,540</u></u>

**City of Sandusky, Michigan**  
**Current Tax Fund**  
**Statement of Changes in Assets and Liabilities**  
**Year Ended February 28, 2004**

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	Balance March 1, 2003	Additions	Deductions	Balance February 29, 2004
Assets				
Cash and cash equivalents	\$ 1,069,555	\$ 2,764,350	\$ 2,678,989	\$ 1,154,916
Taxes receivable	<u>34,047</u>	<u>13,756</u>	<u>34,047</u>	<u>13,756</u>
Total assets	<u>\$ 1,103,602</u>	<u>\$ 2,778,106</u>	<u>\$ 2,713,036</u>	<u>\$ 1,168,672</u>
Liabilities				
Due to other governmental units	\$ 37,035	\$ 1,661,625	\$ 1,646,469	\$ 52,191
Due to other funds	<u>1,066,567</u>	<u>1,116,481</u>	<u>1,066,567</u>	<u>1,116,481</u>
Total liabilities	<u>\$ 1,103,602</u>	<u>\$ 2,778,106</u>	<u>\$ 2,713,036</u>	<u>\$ 1,168,672</u>

**City of Sandusky, Michigan**  
**General Long-Term Debt Account Group**  
**Statement of General Long-Term Debt**  
**February 29, 2004 and February 28, 2003**

Amount Available and to be Provided for the  
Retirement of General Long-Term Debt

	<u>2004</u>	<u>2003</u>
General obligation bonds		
Amount to be provided	\$ 700,000	\$ 800,000
Contracts		
Amount to be provided		
Tornado sirens	16,089	23,674
Runway rehabilitation project	40,999	29,791
Fire hall roof	11,639	15,226
Vacant land	225,000	-
John Deere tractor	57,022	-
	<u>350,749</u>	<u>68,691</u>
Compensated absences		
Amount to be provided	<u>168,270</u>	<u>152,123</u>
Total available and to be provided	<u>\$ 1,219,019</u>	<u>\$ 1,020,814</u>

General Long-Term Debt Payable

General obligation bonds		
1980 Senior Citizens Housing Project Bonds	\$ 700,000	\$ 800,000
Contracts		
1999 installment loan - tornado sirens	16,089	23,674
1999 installment loan - runway rehabilitation project	26,076	29,791
2001 installment loan - runway rehabilitation project	14,923	-
2002 installment loan - fire hall roof	11,639	-
2003 installment loan - vacant land	225,000	-
2001 installment loan - John Deere tractor	57,022	15,226
	<u>350,749</u>	<u>68,691</u>
Compensated absences		
Accrued vacation and sick leave	<u>168,270</u>	<u>152,123</u>
Total general long-term debt payable	<u>\$ 1,219,019</u>	<u>\$ 1,020,814</u>

**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**

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**Water Supply System Revenue Bonds, Series 2000**

Dated October 19, 2000

Original issue \$ 650,000

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Maturity</u>	<u>Outstanding at</u>	
			<u>February 29, 2004</u>	<u>February 28, 2003</u>
6.00%	11/1/2003	\$ 30,000	\$ -	\$ 30,000
4.90%	11/1/2004	30,000	30,000	30,000
5.00%	11/1/2005	30,000	30,000	30,000
5.10%	11/1/2006	35,000	35,000	35,000
5.15%	11/1/2007	35,000	35,000	35,000
5.20%	11/1/2008	35,000	35,000	35,000
5.25%	11/1/2009	40,000	40,000	40,000
5.30%	11/1/2010	40,000	40,000	40,000
5.40%	11/1/2011	40,000	40,000	40,000
5.50%	11/1/2012	45,000	45,000	45,000
5.60%	11/1/2013	45,000	45,000	45,000
5.65%	11/1/2014	45,000	45,000	45,000
5.70%	11/1/2015	50,000	50,000	50,000
5.75%	11/1/2016	50,000	50,000	50,000
5.80%	11/1/2017	50,000	50,000	50,000
			<u>\$ 570,000</u>	<u>\$ 600,000</u>

**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

**Water Supply System Revenue Bonds, Series 2001**

Dated June 7, 2001

Original issue \$ 750,000

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Maturity</u>	<u>Outstanding at</u>	
			<u>February 29, 2004</u>	<u>February 28, 2003</u>
5.10%	11/1/2005	\$ 20,000	\$ 20,000	\$ 20,000
5.10%	11/1/2006	20,000	20,000	20,000
5.10%	11/1/2007	25,000	25,000	25,000
5.10%	11/1/2008	30,000	30,000	30,000
5.10%	11/1/2009	30,000	30,000	30,000
5.10%	11/1/2010	30,000	30,000	30,000
5.10%	11/1/2011	35,000	35,000	35,000
5.10%	11/1/2012	35,000	35,000	35,000
5.10%	11/1/2013	40,000	40,000	40,000
5.10%	11/1/2014	40,000	40,000	40,000
5.10%	11/1/2015	45,000	45,000	45,000
5.10%	11/1/2016	50,000	50,000	50,000
5.10%	11/1/2017	50,000	50,000	50,000
5.10%	11/1/2018	75,000	75,000	75,000
5.10%	11/1/2019	75,000	75,000	75,000
5.10%	11/1/2020	75,000	75,000	75,000
5.10%	11/1/2021	75,000	75,000	75,000
			<u>\$ 750,000</u>	<u>\$ 750,000</u>

**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

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**1980 General Obligation Senior Citizens Housing Project Bonds**

Dated June 1, 1980

Original issue \$ 2,050,000

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Maturity</u>	<u>Outstanding at</u>	
			<u>February 29, 2004</u>	<u>February 28, 2003</u>
9.250%	11/1/02-05	\$ 100,000	\$ 200,000	\$ 300,000
9.250%	11/1/06-09	125,000	<u>500,000</u>	<u>500,000</u>
			<u>\$ 700,000</u>	<u>\$ 800,000</u>

**1992 Special Assessment Limited Tax Bonds**

Dated June 1, 1992

Original issue \$ 185,000

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Maturity</u>	<u>Outstanding at</u>	
			<u>February 29, 2004</u>	<u>February 28, 2003</u>
6.0%	11/1/03	\$ 10,000	\$ -	\$ 10,000
6.0%	11/1/04-06	15,000	<u>45,000</u>	<u>45,000</u>
			<u>\$ 45,000</u>	<u>\$ 55,000</u>

**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

**1992 Michigan Municipal Bonds Water/Sewer Improvements**

Dated June 24, 1992

Original issue \$ 340,000

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Maturity</u>	<u>Outstanding at</u>	
			<u>February 29, 2004</u>	<u>February 28, 2003</u>
6.30%	5/1/03	\$ 35,000	\$ -	\$ 35,000
6.40%	5/1/04	40,000	<u>40,000</u>	<u>40,000</u>
			<u>\$ 40,000</u>	<u>\$ 75,000</u>

**1999 Installment Loan - Tornado sirens**

Dated April 15, 1999

Original issue \$ 44,743

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Annual Maturity</u>	<u>Outstanding at</u>	
			<u>February 29, 2004</u>	<u>February 28, 2003</u>
3.95%	4/15/03	\$ 7,585	\$ -	\$ 7,585
3.95%	4/15/04	7,884	7,884	7,884
3.95%	4/15/05	8,205	<u>8,205</u>	<u>8,205</u>
			<u>\$ 16,089</u>	<u>\$ 23,674</u>

**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

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**1999 Installment Loan - Runway Rehabilitation Project**

Dated July 15, 1999

Original issue \$ 40,000

Interest Rate	Maturity Date	Annual Maturity	Outstanding at	
			February 29, 2004	February 28, 2003
4.50%	7/14/2003	\$ 3,715	\$ -	\$ 3,715
4.50%	7/14/2004	3,882	3,882	3,882
4.50%	7/14/2005	4,056	4,056	4,056
4.50%	7/14/2006	4,239	4,239	4,239
4.50%	7/14/2007	4,430	4,430	4,430
4.50%	7/14/2008	4,630	4,630	4,630
4.50%	7/14/2009	4,839	4,839	4,839
			<u>\$ 26,076</u>	<u>\$ 29,791</u>



**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

**2001 Installment Loan - Runway Rehabilitation Project**

Dated June 8, 2001

Original issue \$ 17,898

Interest Rate	Maturity Date	Annual Maturity	Outstanding at	
			February 29, 2004	February 28, 2003
4.60%	6/8/2004	\$ 1,585	\$ 1,585	\$ -
4.60%	6/8/2005	1,659	1,659	-
4.60%	6/8/2006	1,736	1,736	-
4.60%	6/8/2007	1,816	1,816	-
4.60%	6/8/2008	1,898	1,898	-
4.60%	6/8/2009	1,986	1,986	-
4.60%	6/8/2010	2,078	2,078	-
4.60%	6/8/2011	2,165	2,165	-
			<u>\$ 14,923</u>	<u>\$ -</u>

**2002 Installment Loan - Fire Hall Roof**

Dated January 8, 2002

Original issue \$ 18,683

Interest Rate	Maturity Date	Annual Maturity	Outstanding at	
			February 29, 2004	February 28, 2003
3.75%	12/15/2003	\$ 3,587	\$ -	\$ 3,587
3.75%	12/15/2004	3,722	3,722	3,722
3.75%	12/15/2005	3,861	3,861	3,861
3.75%	12/15/2006	4,056	4,056	4,056
			<u>\$ 11,639</u>	<u>\$ 15,226</u>

**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

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**2003 Installment Loan - Vacant Land**

Dated March 4, 2003

Interest Rate	Maturity Date	Annual Maturity	Outstanding at	
			February 29, 2004	February 28, 2003
4.55%	3/4/2004	\$ 10,763	\$ 10,763	\$ -
4.55%	3/4/2005	11,280	11,280	-
4.55%	3/4/2006	11,794	11,794	-
4.55%	3/4/2007	12,330	12,330	-
4.55%	3/4/2008	12,869	12,869	-
4.55%	3/4/2009	13,477	13,477	-
4.55%	3/4/2010	14,090	14,090	-
4.55%	3/4/2011	14,731	14,731	-
4.55%	3/4/2012	15,386	15,386	-
4.55%	3/4/2013	16,101	16,101	-
4.55%	3/4/2014	16,834	16,834	-
4.55%	3/4/2015	17,600	17,600	-
4.55%	3/4/2016	18,394	18,394	-
4.55%	3/4/2017	19,238	19,238	-
4.55%	3/4/2018	20,113	20,113	-
			<u>\$ 225,000</u>	<u>\$ -</u>

**City of Sandusky, Michigan**  
**Schedule of Long-Term Indebtedness**  
**February 29, 2004 and February 28, 2003**  
**(Continued)**

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**2003 Installment Loan - John Deere Tractor**

Dated March 20, 2003

Original issue \$ 72,855

Interest Rate	Maturity Date	Annual Maturity	Outstanding at	
			February 29, 2004	February 28, 2003
4.33%	3/20/2004	\$ 13,361	\$ 13,361	\$ -
4.33%	3/20/2005	13,941	13,941	-
4.33%	3/20/2006	14,545	14,545	-
4.33%	3/20/2007	15,175	15,175	-
			<u>\$ 57,022</u>	<u>\$ -</u>



April 12, 2004

Members of the City Council  
City of Sandusky  
Sandusky, Michigan

In planning and performing our audit of the financial statements of the City of Sandusky for the year ended February 29, 2004, we considered the City's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated April 12, 2004, on the financial statements of the City of Sandusky.

### **Utility Billing Adjustments**

Strong internal controls require effective monitoring and oversight of accounts that are susceptible to manipulation and misappropriation. We recommend that the finance director receive the monthly report of adjustments made to customer's accounts and review it paying close attention to the following items: recurring adjustments to the same accounts, adjustments to City employee's accounts, other related party's accounts, and void transactions. After review, the finance director should initial her approval and these reports should be maintained for outside verification.

### **Bank Reconciliations**

Adjusting journal entries were required to adjust the disbursements checking account balance and the payroll checking account balance to agree with the bank reconciliation prepared at February 29, 2004. The bank statements are being reconciled to a separate checkbook and not the general ledger. The checkbook is helpful to keep a running balance of cash available. However, the reconciliation needs to include the general ledger to identify posting errors or omissions. We recommend that the clerk and the deputy clerk reconcile these two accounts to the balance on the general ledger on a monthly basis.

### **Security Deposits**

The Senior Citizens Housing Fund collects security deposits at the time that tenants move into the housing. Cash should equal the security deposit liability. At February 29, 2004, the cash account was short \$1,059. We recommend that a monthly reconciliation be completed between the senior citizens housing director and the finance director to make sure that the recognition of cash and revenue are being handled properly and that the accounts agree.

Members of the City Council  
City of Sandusky  
Sandusky, Michigan

We understand that this recommendation is already in progress and we encourage the process to continue.

### **ACH Policy**

Last year, the Council adopted a policy on ACH transactions to comply with Michigan law. The policy requires that the Council be given a list of ACH transactions each month for monitoring. We recommend that the list be provided along with disbursements.

### **New Reporting Model**

The Government Accounting Standards Board has issued GASB 34 *Basic Financial Statements – and Management’s Discussion Analysis – for State and Local Governments*, GASB 37 *Reporting Model Omnibus* and GASB 38 *Note Disclosures*. The pronouncements will have a significant impact on external reporting. The new reporting model will be effective for the fiscal year ending February 28, 2005. Changes to the audited financial statements will include the following:

- Management Discussion and Analysis (MD&A);
- City-wide financial statements, segregating governmental and business-type activities and component units;
- Statement of activities, distinguishing between program and general revenues to identify net program costs;
- Identification of major funds;
- Presentation of the final amended budget, along with the original budget; and
- Recognition of all fixed assets, with an initial value per item, including infrastructure. All fixed assets will be recorded at historical value and depreciated over the assets useful life.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with City personnel. We will be pleased to discuss these items in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Very truly yours,

YEO & YEO, P.C.  
CPAs and Business Consultants



Mari McKenzie